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 September 30, 1999

OR

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

For the transition period from _________ to _________

Commission File Number: 000-22339

RAMBUS INC.

(Exact name of registrant as specified in its charter)

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

2465 Latham Street, Mountain View, CA 94040
(Address of principal executive offices) (zip code)

(650) 944-8000
(Registrant's telephone number, including area code)

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

None

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

Common Stock, $.001 Par Value
(Title of Class)

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of 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. ☒

Aggregate market value of the registrant's Common Stock held by non-affiliates of the Registrant as of November 30, 1999 was approximately $1.3 billion based upon the closing price reported for such date on the Nasdaq National Market. For purposes of this disclosure, shares of Common Stock held by persons who hold more than 5% of the outstanding shares of Common Stock and shares held by officers and directors of the Registrant have been excluded because such persons may be deemed to be affiliates. 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 23,796,308 as of November 30, 1999.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Registrant's next Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K.

PART I

This Annual Report on Form 10-K and the documents incorporated herein by reference contain forward-looking statements that have been made pursuant to the provisions of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are based on current expectations, estimates and projections about the Company's industry, management's beliefs, and certain assumptions made by the Company's management. Words such as ''anticipates,'' ''expects,'' ''intends,'' ''plans,'' ''believes,'' ''seeks,'' ''estimates,'' variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to predict; therefore, actual results may differ materially from those expressed or forecasted in any such forward-looking statements. Such risks and uncertainties include those set forth herein under ''Factors Affecting Future Results'' on pages 6 through 13, as well as those noted in the documents incorporated herein by reference. Unless required by law, the Company undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise. However, readers should carefully review the risk factors set forth in other reports or documents the Company files from time to time with the Securities and Exchange Commission, particularly the Quarterly Reports on Form 10-Q and any Current Reports on Form 8-K.

Item 1. *Business*

Rambus Inc. (''Rambus'' or the ''Company'') designs, develops, licenses and markets high-speed chip-to-chip interface technology to enhance the performance and cost-effectiveness of computers, consumer electronics and other electronic systems. The Company licenses semiconductor companies to manufacture and sell memory and logic ICs incorporating Rambus interface technology and markets its solution to systems companies to encourage them to design Rambus interface technology into their products. The Company's technology cost-effectively increases the data transfer rate, or ''memory bandwidth,'' allowing semiconductor memory devices to keep pace with faster generations of processors and controllers and thus supports the accelerating data transfer requirements of multimedia and other high-bandwidth applications.

Rambus was incorporated in California in March 1990 and reincorporated in Delaware in March 1997.

Background

The performance of a computer or other electronic system is typically constrained by the speed of its slowest element. In the past, that element was the logic IC that controlled the system's specific functions and performed calculations—the microprocessor. In recent years, however, new generations of microprocessors and controllers have become substantially faster and more powerful, and increasingly the bottleneck in system performance is becoming the component that stores the instructions and data needed by the microprocessors and controllers—the DRAM.

Since 1980, the typical operating frequency of mainstream microprocessors has increased from 5 MHz (million cycles per second) to over 700 MHz. During this same period, the typical operating frequency of a standard DRAM has increased only to 100 MHz. This growing disparity between the frequency of microprocessors and DRAMs is termed the ''Performance Gap.''

While microprocessors have undergone both manufacturing and architectural improvements, significant innovations for DRAMs have generally only occurred in the manufacturing area. DRAM manufacturers have been successful in increasing DRAM ''density,'' or storage capacity, from roughly 1 Kbit (thousand bits) to 128 Mbits (million bits) per chip, thereby reducing the number of DRAMs required for a given amount of memory. However, corresponding architectural improvements necessary to increase DRAM data transfer rates to keep pace with increasing microprocessor speeds have not occurred.

Rambus Technology

Rambus has created a revolutionary chip-to-chip interface architecture, which allows data to be transferred through a simplified bus at significantly higher frequencies than permitted by conventional technologies.

Rambus has focused the application of its interface technology on the Performance Gap and licenses its interface technology to memory and logic semiconductor manufacturers, which incorporate this interface technology into their IC designs to supply systems companies with Rambus ICs. The key elements of the Rambus interface are Rambus-based DRAMs (''RDRAMs''), Rambus ASIC cells (''RACs'') and the interconnecting circuitry known as the ''Rambus Channel.'' While Rambus technology can be used to address a wide variety of chip-to-chip data transfer requirements, the largest immediate application is to connect logic circuits to memory in home video games, PCs, workstations and other electronic systems.

The latest generation of Rambus interface technology allows data transfers of up to 1.6 gigabytes per second between a logic IC and RDRAMs by transferring data at a frequency of 800 MHz over a two byte wide bus. System performance can be further enhanced by applying Rambus interface technology to multiple channels on a logic IC. For example, a Rambus-based logic IC can utilize four channels to achieve data transfer of up to 6.4 gigabytes per second. There can be no assurance that this latest technology will result in products suitable for mass production. See ''Factors Affecting Future Results- No Assurance of Adoption of Rambus Technology as an Industry Standard; Cost of Rambus Technology'', ''—Dependence upon PC Main Memory Market Segment and Intel'' and ''—Rapid Technological Change; Reliance on Fundamental Technology; Importance of Timely New Product Development.''

Target Markets and Applications

The high-speed interface technology Rambus has developed is applicable to data transfer between most semiconductor chips. The Company has chosen to concentrate the application of its technology on the interface between logic ICs and memory devices because of the acute performance needs and the relevant market sizes. While Rambus interface technology is useful in providing increased memory bandwidth in any electronic system, the Company believes that the systems which will best utilize the high bandwidth provided by current Rambus technology are the relatively high-volume, low-cost systems in which maximum performance is desired at a reasonable cost. To date, the principal applications for the Company's technology have been in video game and PC systems. Other applications include various consumer and workstation multimedia markets. These areas accounted for the sale of approximately $266 million, $495 million and $447 million of Rambus ICs by Rambus licensees in calendar 1998, 1997 and 1996, respectively.

In November 1996, Rambus entered into a development and license contract with Intel. The contract provided for the parties to cooperate in the development of a specification for next-generation Rambus technology to be targeted at the PC main memory market segment. To date, Intel has developed and begun producing two Rambus controllers as part of new chipsets. One, designed for use with RDRAMs in workstations, was released on schedule. The other chipset, meant for use in the much larger desktop PC segment, was delayed prior to release due to technical problems. There can be no assurance that such problems have been completely solved or that the Intel chipset and Rambus technology will be successful in penetrating the market segment for PC main memory.

Another major application for the second generation of Rambus interface technology is in the next version of the Sony video game system known as PlayStation 2. This system is scheduled to be introduced in Japan in March 2000 and in the U. S. and Europe later in the year. Other applications for the Company's technology include inkjet and laser printers, consumer products such as digital televisions and networking equipment such as high-speed Ethernet switches. There can be no assurance that sales of such products will be meaningful.

Rambus Business Model and Strategy

In order to establish Rambus interface technology as an industry standard, the Company has adopted an innovative business model in which it neither manufactures nor sells semiconductors incorporating the Company's technology. The Company licenses its technology on a nonexclusive and worldwide basis to semiconductor companies which manufacture and sell RDRAMs and logic ICs containing RACs to systems companies which have adopted Rambus technology. Systems companies are not required to obtain a Rambus license to incorporate Rambus ICs into their products. However, an important part of the Company's strategy is to maintain close ties to these systems companies in order to encourage the adoption of Rambus technology.

Rambus provides licenses to both DRAM manufacturers and logic IC manufacturers, who can license Rambus interface technology for use in producing RDRAMs and/or logic ICs containing RACs. At September 30, 1999, Rambus had a total of 31 licensees for the newest generation of Rambus technology. Rambus licensees include fourteen DRAM manufacturers which collectively accounted for over 95% of worldwide DRAM sales in calendar 1998: Fujitsu, Hitachi, Hyundai Electronics, IBM, Micron Technology, Matsushita, Mitsubishi, NEC, Oki Electric Industry, Samsung Electronics, Siemens, Toshiba, Vanguard and Winbond. At September 30, 1999, five of these licensees were shipping RDRAMs. Rambus logic licensees include Advanced Micro Devices, Compaq, Hewlett-Packard, IBM, Intel, LSI Logic, Matsushita, NEC, S3, Texas Instruments and Toshiba. At September 30, 1999, seven logic licensees were shipping logic ICs which include RACs.

The Rambus business model and strategy are designed to promote Rambus as an industry standard, target leading systems companies in markets that the Company believes represent the greatest potential for Rambus IC sales, provide systems companies with multiple sources for RDRAMs, share research and development efforts with licensees, maintain technology leadership, pursue a system-level approach and generate revenue through a combination of contract fees and royalties.

Contract fees have provided the majority of the capital needed to date by the Company to develop its fundamental technology, and the Company believes that its business model is well suited to continue funding future development. However, there is no assurance that the Company's current partner licensees will generate revenue, or that the Company will be able to add new license contracts in the future, at levels sufficient to provide significant funding for further development activities.

Royalties, which are generally a percentage of the revenues received by licensees on their sales of Rambus ICs, are normally payable by a Rambus licensee on sales occurring during the life of the Rambus patents being licensed. For a typical systems application of Rambus technology, the Company receives royalties from the sale of both logic ICs containing RACs and RDRAMs as they are shipped by Rambus licensees. Royalty rates range up to a maximum of approximately 2.5% for RDRAMs and a maximum of approximately 5% for logic ICs, and in some cases may decline based on the passage of time or on the total volume of Rambus ICs shipped. The exact rate and structure of a royalty arrangement with a particular licensee depend on a number of factors, including the amount of the license fee to be paid by the licensee and the marketing and engineering commitment made by the licensee.

Design and Manufacturing

Rambus interface technology has been developed to allow semiconductor companies to use familiar, widely-available design tools and conventional techniques when designing their Rambus-enabled chips. A new Rambus licensee receives an implementation package from the Company which contains all the information needed to develop a Rambus IC in the licensee's process. There are separate implementation packages for RDRAMs and for RACs. An implementation package includes a specification, a generalized circuit layout database for the particular version of the RDRAM or RAC which the licensee intends to develop, test parameter software and, for RDRAMs, a DRAM core interface specification. Many licensees have contracted to have Rambus produce the specific implementation required to optimize the generalized circuit layout for the licensee's manufacturing process. In such cases, the licensee provides specific design rules and transistor models which Rambus designers use to integrate RDRAM or RAC circuits into the licensee's process. However, Rambus anticipates that as licensees become more familiar with the Rambus technology, they will be able to do more of the implementation work without Rambus' assistance.

Rambus has developed its technology to be manufacturable using familiar, industry-standard CMOS semiconductor processes. For this reason the Company believes that the wafer fabrication yields of RDRAMs and logic products containing RACs in mass-production volumes will be consistent with those for similar products in the same manufacturing facility. However, it is likely that for some initial startup period the newest generation of RDRAMs will have a lower than normal yield to the full 800 MHz specification, and some parts will have to be sold at a lower price based on a 700 MHz or even a 600 MHz specification. There can be no

assurance that a market for such downgraded RDRAMs will develop. In addition, because of the extra Rambus interface circuitry and other features, an RDRAM chip is somewhat larger than a standard DRAM. Therefore, a manufacturer will generally produce fewer RDRAMs than standard DRAMs for a given wafer size and an RDRAM chip will be somewhat more expensive than the standard version. Also, RDRAM manufacturers are responsible for their own manufacturing processes and Rambus has no role in the manufacture of RDRAMs. For example, Rambus has no influence on decisions in regard to any process changes or on whether or when to ''shrink'' or otherwise change a design to reduce the cost of the chips.

In the latest implementation of Rambus technology, RDRAMs use newer-generation chip scale packaging (''CSP'') and require high-speed testers for a portion of the test procedure. While the Company feels that packaging and testing costs for RDRAMs in mass production volumes will be no greater than for current standard DRAMs, additional capital equipment will be required and startup costs will be incurred by the manufacturers producing these newest Rambus DRAMs. In addition, for PC main memory applications memory modules (called ''RIMMs''), connectors and clock chips must be produced by multiple vendors and available in volume. There is no assurance that such changes in the manufacturing processes and infrastructure of the DRAM industry will be accomplished in sufficient time and at a sufficiently competitive price to allow the development of a mass market for Rambus technology.

Research and Development

The ability of the Company to compete in the future will be substantially dependent on its ability to advance its interface technology in order to meet changing market needs. To this end, Company engineers are involved in developing new versions of the Rambus interface technology which will allow chip-to-chip data transfer at higher speeds as well as provide other improvements. The Company has assembled a team of highly skilled engineers whose activities are focused on further development of Rambus interface technology as well as adaptation of current technology to specific licensees' processes. Because of the complexity of these activities, the design and development process at Rambus is a multi-disciplinary effort requiring expertise in computer architecture, digital and analog circuit design and layout, DRAM and logic semiconductor process characteristics, packaging, PCB routing and high-speed testing techniques.

As of September 30, 1999, Rambus had 114 employees in its engineering departments. Approximately two thirds of these employees have advanced technical degrees. In fiscal 1999, 1998 and 1997, research and development expenses were approximately $8.1 million, $9.6 million and $9.8 million, respectively. In addition, because the Company's license agreements often call for engineering support by Rambus, a substantial portion of the Company's total engineering costs has been allocated to cost of contract revenues, even though these engineering efforts have direct applicability to Rambus' technology development. The Company expects that it will continue to invest substantial funds in research and development activities. There can be no assurance that new versions of the Rambus interface technology can be developed and introduced by the Company's licensees in a timely fashion or that such new technology will be accepted by the market. Moreover, the end markets for the Company's technology are subject to rapid technological change and there can be no assurance that as such markets change the Company's interface technology will remain current and suitable.

Competition

The semiconductor industry is intensely competitive and has been characterized by price erosion, rapid technological change, short product life cycles, cyclical market patterns and increasing foreign and domestic competition. Most major DRAM manufacturers, including Rambus licensees, produce higher-frequency versions of standard DRAMs such as SDRAMs (synchronous DRAMs) which compete with RDRAMs. These companies are much larger and have better access to financial, certain technical and other resources than Rambus.

The Company believes that its success in establishing a new high-speed memory interface has been due in part to the systems approach it has taken to solving the application needs of companies in home video game,

PC and other electronic systems businesses. However, the Company believes competitors have begun to take a similar approach. The Company believes that its principal competition may come from its licensees and prospective licensees, many of which are evaluating and developing products based on alternative technologies. Some DRAM suppliers have begun to produce Double Data Rate (''DDR'') SDRAMs, aimed at doubling the memory bandwidth from SDRAMs without increasing the clock frequency. In addition, a consortium including both large DRAM manufacturers and systems companies is developing an extension of DDR known as DDR-2. To the extent that these alternative technologies provide comparable system performance at lower or similar cost than RDRAMs, or are perceived to require the payment of lower royalties, the Company's licensees and prospective licensees may adopt and promote the alternative technologies. There can be no assurance that the Company's future competition will not have a material adverse effect on the Company's business, financial condition and results of operations. In addition, certain semiconductor companies are now marketing ICs which combine logic and DRAM on the same chip. Such chips, called ''embedded DRAM,'' eliminate the need for any chip-to-chip interface and are primarily being used for graphics applications. Embedded DRAMs are well suited for applications where component space saving and power consumption are important, such as in the graphics subsystems of notebook PCs. There can be no assurance that competition from embedded DRAMs will not increase in the future.

Patents and Intellectual Property Protection

The Company has an active program to protect its proprietary technology through the filing of patents. At September 30, 1999, the Company held 62 United States patents on various aspects of its technology, with expiration dates ranging from 2010 to 2019 and had applications pending for an additional approximately 90 United States patents. The Company's United States patents do not prevent the manufacture or sale of Rambus-based ICs abroad. At September 30, 1999, the Company held ten foreign patents and had an additional 36 foreign patent applications pending in Taiwan, Korea, Japan and various other jurisdictions. In addition, the Company attempts to protect its trade secrets and other proprietary information through agreements with licensees and systems companies, proprietary information agreements with employees and consultants and other security measures. The Company also relies on trademarks and trade secret laws to protect its intellectual property.

Rambus believes that it is important to develop and maintain a uniform RDRAM memory interface standard. The Company's contracts generally prevent a licensee from using licensee-developed patented improvements related to Rambus technology to block other licensees from using the improvements or requiring them to pay additional royalties related to their use of Rambus interface technology. Specifically, the contracts generally require licensees to grant to Rambus a royalty-free cross-license on patented licensee intellectual property related to the implementation of Rambus interface technology, which Rambus sublicenses to other licensees which have entered into similar arrangements. Not all licensees have granted Rambus cross-licenses and there is no assurance that such a blocking arrangement will not occur in the future.

Sales and Marketing

Consistent with the Company's business model, sales and marketing activities are focused on developing relationships with potential licensees and on participating with existing licensees in marketing, sales and technical efforts directed to systems companies. In many cases, Rambus must dedicate substantial resources to market to and support systems companies. The Company's sales and marketing efforts include applications engineering and other technical support for systems companies, as well as trade shows, advertising and other traditional marketing activities.

Employees

As of September 30, 1999 the Company had 166 employees, including five in Japan. Of this total, 114 were in engineering, 34 were in marketing and sales, and 18 were in finance and administration. Overall, approximately three quarters of the Company's employees have technical degrees, and more than half of the

Company's employees have advanced technical degrees. The Company's future success will largely be dependent on its ability to attract, retain and motivate highly qualified technical and management personnel who are in great demand in the semiconductor industry. The Company's employees are not represented by any collective bargaining agreements and the Company has never experienced a work stoppage. The Company believes that its employee relations are good.

Factors Affecting Future Results

Unpredictable and Fluctuating Operating Results. Because many of the Company's revenue components fluctuate and are difficult to predict, and its expenses are largely independent of revenues in any particular period, it is difficult for the Company to accurately forecast revenues and profitability. Historically, contract revenues have represented the largest portion of the Company's revenues. The Company recognizes contract revenues ratably over the period during which post-contract customer support is expected to be provided. While this means that contract revenues from current licenses are generally predictable, changes can be introduced by a reevaluation by Company management of the length of the post-contract support period. The initial estimate of this period is subject to revision as the Rambus IC being developed under a contract nears production, and such revision will result in an increase or decrease to the quarterly revenue for that contract. In addition, accurate prediction of revenues from new licenses is difficult because the development of a business relationship with a potential licensee is a lengthy process, frequently spanning a year or more, and the fiscal period in which a new license agreement will be entered into, if at all, and the financial terms of such an agreement are difficult to predict. Contract revenues also include fees for engineering services, which are dependent upon the varying level of assistance desired by licensees and, therefore, the revenue from these services is also difficult to predict. Adding to the complexity of making accurate financial forecasts is the fact that certain expenses associated with a particular contract may not be incurred evenly over the contract period, whereas contract fees associated with that contract are recognized ratably over the period during which the post-contract customer support is expected to be provided.

Royalties accounted for 18% of total revenues in fiscal 1999. The Company believes that royalties will represent an increasing portion of total revenue in the future. Increasing royalty revenues will add to the difficulty in making accurate financial forecasts. Such royalties are recognized in the quarter in which the Company receives a report from a licensee regarding the shipment of Rambus ICs in the prior quarter, and are dependent upon fluctuating sales volumes and prices of chips containing Rambus technology, all of which are beyond the Company's ability to control or assess in advance. The Company believes that its continued success will be substantially dependent upon royalties increasing at a rate which more than offsets decreases in the recognition of deferred revenue under existing contracts as their recognition periods expire, as well as the Company's ability to add new licensees and to license new generations of its technology to its existing licensees. Because a systems company can change its source of Rambus ICs at any time, and because the new Rambus license source could have a considerable nonrefundable prepaid royalty balance as well as different royalty rates, any such change by a systems company, particularly one which accounts for substantial volumes of Rambus ICs, could have a sudden and significant adverse effect on the Company's revenues.

The Company's business is subject to a variety of additional risks which could materially adversely affect quarterly and annual operating results, including market acceptance of the Company's technology; systems companies' acceptance of Rambus ICs produced by the Company's licensees; market acceptance of the products of systems companies which have adopted the Company's technology; the loss of any strategic relationships with systems companies or licensees; announcements or introductions of new technologies or products by the Company or the Company's competitors; delays or problems in the introduction or performance of enhancements or future generations of the Company's technology; fluctuations in the market price and demand for DRAMs and logic ICs into which the Company's technology has been incorporated; competitive pressures resulting in lower contract revenues or royalty rates; changes in the Company's and system companies' development schedules and levels of expenditure on research and development; personnel changes, particularly those involving engineering and technical personnel; costs associated with protecting the

Company's intellectual property; changes in Company strategies; foreign exchange rate fluctuations or other changes in the international business climate; and general economic trends and other factors.

Volatility of Stock Price. The trading price of the Company's Common Stock has been subject to wide fluctuations which may continue in the future in response to quarterly variations in operating results; progress or lack of progress in the development of Rambus-based ICs by licensees or Rambus-based products by systems companies; announcements of technological innovations or new products by the Company, its licensees or its competitors; developments with respect to patents or proprietary rights and other events or factors. The trading price of the Company's Common Stock could also be subject to wide fluctuations in response to the publication of reports and changes in financial estimates by securities analysts, and it is possible that the Company's actual results in one or more future periods will fall short of those estimates by securities analysts. In addition, the equity markets have experienced volatility that has particularly affected the market prices of equity securities of many high technology companies and that often has been unrelated or disproportionate to the operating performance of such companies. These broad market fluctuations may adversely affect the market price of the Company's Common Stock.

Dependence upon Limited Number of Licensees. The Company neither manufactures nor sells devices containing its interface technology. Rather, the Company licenses its technology to semiconductor companies, which in turn manufacture and sell Rambus ICs to systems companies which incorporate Rambus technology into their products. The Company's strategy to become an industry standard is dependent upon the Company's ability to make its technology widely available to systems companies through multiple semiconductor manufacturers, and there can be no assurance that the Company will be successful in maintaining its relationships with its current licensees or in entering into new relationships with additional licensees. The Company faces numerous risks in successfully obtaining licensees on terms consistent with the Company's business model, including, among others, the lengthy and expensive process of building a relationship with a potential licensee before there is any assurance of a license agreement with such party; persuading large semiconductor companies to work with, to rely for critical technology on, and to disclose proprietary manufacturing technology to, a smaller company such as Rambus; persuading potential licensees to bear certain development costs associated with Rambus technology and to make the necessary investment to successfully produce Rambus ICs; and successfully transferring technical know-how to licensees. In addition, there are a relatively limited number of larger semiconductor companies to which the Company could license its interface technology in a manner consistent with its business model. The Company believes that its principal competition may come from its licensees and prospective licensees, many of which are evaluating and developing products based on alternative technologies.

Dependence upon Systems Companies. Although sales of Rambus ICs to systems companies which have adopted the Company's technology for their products are not made directly by the Company, such sales directly affect the amount of royalties received by the Company. Therefore, the Company's success is substantially dependent upon the adoption of the Company's interface technology by systems companies, particularly those which develop and market high-volume business and consumer products such as home video games and PCs. The Company is subject to many risks beyond its control that influence the success or failure of a particular systems company, including among others competition faced by the systems company in its particular industry; market acceptance of the systems company's products; the engineering, sales and marketing and management capabilities of the systems company; technical challenges unrelated to Rambus technology faced by the systems company in developing its products; and the financial and other resources of the systems company. The process of persuading systems companies to adopt the Company's technology can be lengthy and, even if adopted, there can be no assurance that the Rambus technology will be used in a product that is ultimately brought to market, achieves commercial acceptance or results in significant royalties to the Company. Rambus must dedicate substantial resources to market to and support systems companies, in addition to supporting the sales and marketing and technical efforts of its licensees in promoting Rambus technology to systems companies. Even if a systems company develops a Rambus-based product, success in the market will depend in part on a

supply of ICs from Rambus licensees in sufficient quantities and at commercially attractive prices. Because the Company does not control the business practices of its licensees, it has no ability to establish the prices at which its technology is made available to systems companies or the degree to which its licensees promote Rambus technology to systems companies.

No Assurance of Adoption of Rambus Technology as an Industry Standard; Cost of Rambus Technology. An important part of the Company's strategy to become an industry standard is to penetrate new markets by targeting leaders in those markets. This strategy is designed to encourage other participants in those markets to follow such leaders in adopting Rambus technology. Should a high profile industry participant adopt Rambus technology for one or more of its products but fail to achieve success with those products, other industry participants' perception of Rambus technology could be adversely affected. Any such event could reduce future sales of Rambus ICs. Likewise, were a market leader to adopt and achieve success with a competing technology, the Company's reputation and sales could be adversely affected. In addition, some industry participants have adopted, and others may in the future adopt, a strategy of disparaging the Rambus solution adopted by their competitors. Failure of the Company's technology to be adopted as an industry standard would have a material adverse effect on the Company's business, financial condition and results of operations.

One important requirement for the Company's technology to be adopted as an industry standard is for any premium in the cost of Rambus memory over alternatives to be reasonable in comparison to the perceived benefits of the technology. However, there can be no assurance that the cost premium for RDRAMs over standard memory can be reduced sufficiently to allow the development of Rambus as an industry standard. It is likely that for some initial startup period the newest generation of RDRAMs will have a lower than normal yield to the full 800 MHz specification, and some parts will have to be sold at a lower price based on a 700 MHz or even a 600 MHz specification. There can be no assurance that a market for such downgraded RDRAMs will develop or that yields to the full 800 MHz specification will reach satisfactory levels. In addition, because of the extra Rambus interface circuitry and other features, an RDRAM chip is somewhat larger than a standard DRAM. Therefore, a manufacturer will generally produce fewer RDRAMs than standard DRAMs for a given wafer size and an RDRAM chip will be somewhat more expensive than the standard version. Also, RDRAM manufacturers are responsible for their own manufacturing processes and Rambus has no role in the manufacture of RDRAMs. For example, Rambus has no influence on decisions in regard to any process changes or on whether or when to ''shrink'' or otherwise change a design to reduce the cost of the chips.

In the latest implementation of Rambus technology, RDRAMs use newer-generation chip scale packaging (''CSP'') and require high-speed testers for a portion of the test procedure. While the Company feels that packaging and testing costs for RDRAMs in mass production volumes will be no greater than for current standard DRAMs, additional capital equipment will be required and startup costs will be incurred by the manufacturers producing these newest Rambus DRAMs. In addition, for PC main memory applications memory modules (called ''RIMMs''), connectors and clock chips must be produced by multiple vendors and available in volume. There is no assurance that such changes in the manufacturing processes and infrastructure of the DRAM industry will be accomplished in sufficient time, nor that the cost of Rambus technology can be reduced sufficiently, to allow the development of a mass market.

Dependence upon PC Main Memory Market Segment and Intel. An important part of the Company's strategy is to penetrate the market segment for PC main memory. Rambus believes that PC main memory currently accounts for more than one-half of all DRAMs sold. In November 1996, Rambus signed a development and license contract with Intel Corporation which provided for the parties to cooperate in the development of a specification for an extension of the RDRAM optimized for PC main memory applications. The initially-anticipated development period for the new RDRAM technology was three years. During 1999, the scheduled date for release of the initial Intel chipset incorporating a Rambus memory controller was twice delayed due to a number of technological issues which needed to be successfully resolved prior to implementation. There can be no assurance that Intel's chipsets designed for use with RDRAMs will meet

market requirements. In addition, there can be no assurance that the market for high bandwidth PC main memory products, as anticipated by Intel, will develop at all or that RDRAMs will be built by the Company's licensees and purchased by PC manufacturers in sufficient quantity to become a standard for PC main memory. Under the contract, Intel can terminate its relationship with Rambus at any time. The Company established an earlier relationship with Intel several years ago, but Intel did not at that time pursue development relating to Rambus technology. There can be no assurance that Intel's current emphasis or priorities will not change in the future, resulting in less attention and fewer resources being devoted to the current Rambus relationship. Although certain aspects of the current relationship between the two companies are contractual in nature, many important aspects depend on the continued cooperation of the two companies. There can be no assurance that Rambus and Intel will be able to work together successfully over an extended period of time. In addition, there can be no assurance that Intel will not develop or adopt competing technologies in the future.

Revenue Concentration. The Company is subject to revenue concentration risks at both the licensee and the systems company levels. In fiscal 1999, 1998, and 1997, revenues from the Company's top five licensees accounted for approximately 47%, 49% and 63% of the Company's revenues, respectively. In fiscal 1999, 1998, and 1997 NEC accounted for approximately 11%, 22% and 29% of revenues, respectively. Also in fiscal 1999, two other licensees accounted for 11% and 10% of revenues. In fiscal 1997, one other licensee accounted for 10% of revenues. Because the revenues derived from various licensees vary from period to period depending on the addition of new contracts, the expiration of deferred revenue schedules under existing contracts and the volumes and prices at which the licensees have recently sold Rambus ICs to systems companies, the particular licensees which account for revenue concentration have varied from period to period. These variations are expected to continue in the foreseeable future although the Company anticipates that revenue will continue to be concentrated in a limited number of licensees.

The royalties received by the Company are a function of the adoption of Rambus technology at the systems company level. Systems companies purchase semiconductors containing Rambus technology from Rambus licensees, and generally do not have a direct contractual relationship with the Company. The Company's licensees generally do not provide detail as to the identity of, or volume of Rambus ICs purchased by, particular systems companies. As a result, the Company faces difficulty in analyzing the extent to which its future revenues will be dependent upon particular systems companies. However, the Company believes that sales from its licensees to Nintendo have accounted for a substantial portion of royalties in the past but are unlikely to continue at such a rate in the future. In fiscal 2000 it is likely that sales by licensees to Sony and to PC manufacturers will account for the majority of the Company's royalty revenues. All these systems companies face intense competitive pressure in their markets, which are characterized by extreme volatility, frequent new product introductions and rapidly shifting consumer preferences, and there can be no assurance as to the unit volumes of Rambus ICs that will be purchased by these companies in the future or the level of royalty-bearing revenues that the Company's licensees will receive from sales to these companies. There can be no assurance that a significant number of other systems companies will adopt the Company's technology or that the Company's dependence upon particular systems companies will decrease in the future.

Reliance upon DRAM Market; Declines in DRAM Price and Unit Volume per System. To date, a majority of the Company's royalties has been derived from the sale of logic ICs incorporating RACs. If the Company is successful in its strategy to penetrate the PC main memory market, the Company expects that royalties from the sale of RDRAMs will eventually account for the largest portion of royalties. Royalties on RDRAMs are based on the volumes and prices of RDRAMs manufactured and sold by the Company's licensees. The royalties received by the Company therefore are influenced by many of the risks faced by the DRAM market in general, including constraints on the volumes shipped during periods of shortage and reduced average selling prices. The DRAM market is intensely competitive and generally is characterized by declining average selling prices over the life of a generation of chips. Such price decreases, and the corresponding decreases in per unit royalties received by the Company, can be sudden and dramatic. Compounding the effect of price decreases is the fact that, under certain of the Company's license agreements, royalty rates decrease as a function of time or volume. With the introduction of each new generation of higher density RDRAMs, the

Company generally expects higher prices resulting in higher royalties per device, but with correspondingly fewer devices required per system. There can be no assurance that decreases in DRAM prices or in the Company's royalty rates will not have a material adverse effect on the Company's business, results of operations and financial condition. There can be no assurance that the Company will be successful in maintaining or increasing its share of any market.

Rapid Technological Change; Reliance on Fundamental Technology; Importance of Timely New Product Development. The semiconductor industry is characterized by rapid technological change, with new generations of semiconductors being introduced periodically and with ongoing evolutionary improvements. Since beginning operations in 1990, the Company has derived all of its revenue from its interface technology and expects that this dependence on its fundamental technology will continue for the foreseeable future. Accordingly, broad acceptance of the Company's interface technology is critical to the Company's future success. The introduction or market acceptance of competing technology which renders the Company's interface technology less desirable or obsolete would have a rapid and material adverse effect on the Company's business, results of operations and financial condition. The announcement of new products by the Company could cause licensees or systems companies to delay or defer entering into arrangements for the use of the Company's technology, which could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company's operating results will depend to a significant extent on its ability to introduce enhancements and new generations of its interface technology which keep pace with other changes in the semiconductor industry and which achieve rapid market acceptance. The Company must continually devote significant engineering resources to addressing the ever-increasing need for memory bandwidth associated with increases in the speed of microprocessors and other controllers. Technical innovations of the type that will be required for the Company to be successful are inherently complex and require long development cycles, and there can be no assurance that the Company's development efforts will ultimately be successful. In addition, these innovations must be completed before changes in the semiconductor industry have rendered them obsolete, must be available when systems companies require these innovations, and must be sufficiently compelling to cause semiconductor manufacturers to enter into licensing arrangements with Rambus for the new technology. There can be no assurance that Rambus will be able to meet these requirements. Moreover, significant technological innovations generally require a substantial investment before their commercial viability can be determined. There can be no assurance that the Company will have the financial resources necessary to fund future development, that the Company's licensees will continue to share certain research and development costs with the Company as they have in the past, or that revenues from enhancements or new generations of the Company's technology, even if successfully developed, will exceed the costs of development.

Competition. The semiconductor industry is intensely competitive and has been characterized by price erosion, rapid technological change, short product life cycles, cyclical market patterns and increasing foreign and domestic competition. Most major DRAM manufacturers, including Rambus licensees, produce higher-frequency versions of standard DRAMs such as SDRAMs which compete with RDRAMs. These companies are much larger and have better access to financial, certain technical and other resources than Rambus.

The Company believes that its principal competition may come from its licensees and prospective licensees, many of which are evaluating and developing products based on alternative technologies and are beginning to take a systems approach similar to the Company's in solving the application needs of systems companies. Some DRAM suppliers have begun to produce DDR SDRAMs, aimed at doubling the memory bandwidth from SDRAMs without increasing the clock frequency. In addition, a consortium including both large DRAM manufacturers and systems companies is developing an extension of DDR known as DDR-2. To the extent that these alternative technologies provide comparable system performance at lower or similar cost than RDRAMs, or are perceived to require the payment of lower royalties, the Company's licensees and prospective licensees may adopt and promote the alternative technologies. There can be no assurance that the

Company's future competition will not have a material adverse effect on the Company's business, results of operations and financial condition. In addition, certain semiconductor companies are now marketing ICs which combine logic and DRAM on the same chip. Such chips, called ''embedded DRAM,'' eliminate the need for any chip-to-chip interface and are primarily being used for graphics applications. Embedded DRAMs are well suited for applications where component space saving and power consumption are important, such as in the graphics subsystems of notebook PCs. There can be no assurance that competition from embedded DRAMs will not increase in the future.

Limited Protection of Intellectual Property; Likelihood of Potential Litigation. While the Company has an active program to protect its proprietary technology through the filing of patents, there can be no assurance that the Company's pending United States or foreign patent applications or any future United States or foreign patent applications will be approved, that any issued patents will protect the Company's intellectual property or will not be challenged by third parties, or that the patents of others will not have an adverse effect on the Company's ability to do business. Furthermore, there can be no assurance that others will not independently develop similar or competing technology or design around any patents that may be issued to the Company.

The Company attempts to protect its trade secrets and other proprietary information through agreements with licensees and systems companies, proprietary information agreements with employees and consultants and other security measures. The Company also relies on trademarks and trade secret laws to protect its intellectual property. Despite these efforts, there can be no assurance that others will not gain access to the Company's trade secrets, or that the Company can meaningfully protect its intellectual property. In addition, effective trade secret protection may be unavailable or limited in certain foreign countries. Although the Company intends to protect its rights vigorously, there can be no assurance that such measures will be successful.

Rambus believes that it is important to develop and maintain a uniform RDRAM memory interface standard. The Company's contracts generally prevent a licensee from using licensee-developed patented improvements related to Rambus technology to block other licensees from using the improvements or requiring them to pay additional royalties related to their use of Rambus interface technology. Specifically, the contracts generally require licensees to grant to Rambus a royalty-free cross-license on patented licensee intellectual property related to the implementation of Rambus interface technology, which Rambus sublicenses to other licensees that have entered into similar arrangements. Not all licensees have granted Rambus cross-licenses, and there is no assurance that such a blocking arrangement will not occur in the future.

The semiconductor industry is characterized by frequent litigation regarding patent and other intellectual property rights. While the Company has not received formal notice of any infringement of the rights of any third party, questions of infringement in the semiconductor field involve highly technical and subjective analyses. Litigation may be necessary in the future to enforce the Company's patents and other intellectual property rights, to protect the Company's trade secrets, to determine the validity and scope of the proprietary rights of others, or to defend against claims of infringement or invalidity, and there can be no assurance that the Company would prevail in any future litigation. Any such litigation, whether or not determined in the Company's favor or settled by the Company, would be costly and would divert the efforts and attention of the Company's management and technical personnel from normal business operations, which would have a material adverse effect on the Company's business, financial condition and results of operations. Adverse determinations in litigation could result in the loss of the Company's proprietary rights, subject the Company to significant liabilities, require the Company to seek licenses from third parties or prevent the Company from licensing its technology, any of which could have a material adverse effect on the Company's business, financial condition and results of operations.

In any potential dispute involving the Company's patents or other intellectual property, the Company's licensees could also become the target of litigation. While the Company generally does not indemnify its licensees, some of its license agreements require the Company to provide technical support and information to a licensee which is involved in litigation involving use of Rambus technology. The Company is bound to

indemnify certain licensees under the terms of certain license agreements, and the Company may agree to indemnify others in the future. The Company's support and indemnification obligations could result in substantial expenses to the Company. In addition to the time and expense required for the Company to supply such support or indemnification to its licensees, a licensee's development, marketing and sales of Rambus ICs could be severely disrupted or shut down as a result of litigation, which in turn could have a material adverse effect on the Company's business, financial condition and results of operations.

Risks Associated with International Licenses. In fiscal 1999, 1998 and 1997, international revenues constituted approximately 60%, 73% and 80% of the Company's total revenues, respectively. The Company expects that revenues derived from international licensees will continue to represent a significant portion of its total revenues in the future. All of the revenues from international licensees have to date been denominated in United States dollars. However, to the extent that such licensees' sales to systems companies are not denominated in United States dollars, any royalties that the Company receives as a result of such sales could be subject to fluctuations in currency exchange rates. In addition, if the effective price of Rambus ICs sold to the Company's foreign licensees were to increase as a result of fluctuations in the exchange rate of the relevant currencies, demand for Rambus ICs could fall, which in turn would reduce the Company's royalties. The Company does not use derivative instruments to hedge foreign exchange rate risk. In addition, international operations and demand for the products of the Company's licensees are subject to a variety of risks, including tariffs, import restrictions and other trade barriers, changes in regulatory requirements, longer accounts receivable payment cycles, adverse tax consequences, export license requirements, foreign government regulation, political and economic instability and changes in diplomatic and trade relationships. In particular, the laws of certain countries in which the Company currently licenses or may in the future license its technology require significant withholding taxes on payments for intellectual property, which the Company may not be able to offset fully against its United States tax obligations. The Company is subject to the further risk of the tax authorities in those countries recharacterizing certain engineering fees as license fees, which could result in increased tax withholdings and penalties. The Company's licensees are subject to many of the risks described above with respect to systems companies which are located in different countries, particularly video game and PC manufacturers located in Asia and elsewhere. There can be no assurance that one or more of the risks associated with international licenses of the Company's technology will not have a direct or indirect material adverse effect on the Company's business, financial condition and results of operations. Moreover, the laws of certain foreign countries in which the Company's technology is or may in the future be licensed may not protect the Company's intellectual property rights to the same extent as the laws of the United States, thus increasing the possibility of infringement of the Company's intellectual property.

Dependence on Key Personnel. The Company's success depends to a significant extent on its ability to identify, attract, motivate and retain qualified technical, sales, marketing, finance and executive personnel. Because the future success of the Company is dependent upon its ability to continue enhancing and introducing new generations of such technology, the Company is particularly dependent upon its ability to identify, attract, motivate and retain qualified engineers with the requisite educational background and industry experience. Competition for qualified engineers, particularly those with significant industry experience, is intense. The Company is also dependent upon its senior management personnel, most of whom have worked together at the Company for several years. The loss of the services of any of the senior management personnel or a significant number of the Company's engineers could be disruptive to the Company's development efforts or business relationships and could have a material adverse effect on the Company's business, financial condition and results of operations. The Company generally does not enter into employment contracts with its employees and does not maintain key person life insurance.

Management of Expanded Operations. The Company is not experienced in managing rapid growth. The Company may not be equipped to successfully manage any future periods of rapid growth or expansion, which could be expected to place a significant strain on the Company's limited managerial, financial, engineering and other resources. The Company's licensees and systems companies rely heavily on the Company's technological expertise in designing, testing and manufacturing products incorporating the Company's interface technologies.

Relationships with new licensees or systems companies generally require significant engineering support. As a result, any increases in adoption of the Company's technology will increase the strain on the Company's resources, particularly the Company's engineers. Any delays or difficulties in the Company's research and development process caused by these factors or others could make it difficult for the Company to develop future generations of its interface technology and to remain competitive. In addition, the rapid rate of hiring new employees could be disruptive and adversely affect the efficiency of the Company's research and development process. The rate of the Company's future expansion, if any, in combination with the complexity of the technology involved in the Company's licensee-based business model, may demand an unusually high level of managerial effectiveness in anticipating, planning, coordinating and meeting the operational needs of the Company as well as the needs of the licensees and systems companies. Additionally, the Company may be required to reorganize its managerial structure in order to more effectively respond to the needs of customers. Given the small pool of potential licensees and target systems companies, the adverse effect on the Company resulting from a lack of effective management in any of these areas will be magnified. Inability to manage the expansion of the Company's business would have a material adverse effect on its business, financial condition and results of operations.

Impact of Year 2000. To the extent permitted by law, the disclosure included in this paragraph is intended to constitute Year 2000 readiness disclosure within the meaning of the Year 2000 Information and Readiness Disclosure Act. As part of the transfer of technology to its licensees, the Company provides information in the form of implementation packages which include specifications, circuit layout databases, test parameter software and, in the case of RDRAMs, core interface specifications. Such information is not date sensitive and therefore not subject to Year 2000 problems. Since the Company does not sell any other kind of product, internal Year 2000 issues are confined to its engineering design and administrative systems. The Company has assessed the readiness of its internal computer systems and outside services for handling the Year 2000. The remediation process is underway and will be complete in all material respects by year-end. The Company believes that its internal computer systems and outside services will be Year 2000 compliant and that the risk of major disruption from these systems and services due to Year 2000 issues is minimal. Through September 30, 1999, the Company has not incurred any significant costs to ensure its internal computer systems and outside services are Year 2000 compliant, other than software purchases and upgrades which were purchased in the Company's normal course of business. The Company does not expect the cost of implementation for its internal computer systems and outside services to have a material impact on the Company's financial position or results of operations. However, the Company could be negatively affected to the extent that Year 2000 problems at its licensees or their customers could affect the shipment of Rambus ICs and the payment of royalties to the Company. Such effects on its licensees or their customers could cause the Company to miss quarterly analysts' estimates of its revenue and profits. The Company has no way of analyzing the probability of Year 2000 problems at its licensees or their customers, and therefore, there can be no assurance that the Company's licensees or their customers will be Year 2000 compliant or, in any event, that the Company will not be negatively affected from Year 2000 issues.

Item 2. *Properties*

The Company leases approximately 42,000 square feet in one building in Mountain View, California for its U.S. engineering, marketing and administrative operations. The principal lease expires in 2005, with an option to extend the lease for an additional five years. In August 1999 the Company signed a lease for a 96,000 square-foot building to be constructed in Los Altos, California. The lease has an initial term of ten years, with options to extend the term for two periods of five years each. The Company anticipates moving its U.S. operations to this new building upon its completion, scheduled for late 2000. The Company also leases space in Tokyo for an office which provides sales and technical support to systems companies in Japan. The Company believes that it will not have difficulty in securing additional facilities if required.

Item 3. ***Legal Proceedings***

The Company has no current or threatened legal proceedings or claims.

Item 4. ***Submission of Matters to a Vote of Security Holders***

No matters were submitted to a vote of security holders during the fourth quarter of fiscal year 1999.

PART II

Item 5. *Market for Registrant's Common Equity and Related Stockholder Matters*

The Company's common stock is listed on the Nasdaq National Market under the symbol ''RMBS.'' The quarterly high and low prices as reported by Nasdaq are included in the table ''Consolidated Supplementary Financial Data'' on page 45 of this Report 10-K.

As of November 30, 1999, there were 461 holders of record of the Company's common stock. Because many of the shares of the Company's common stock are held by brokers and other institutions on behalf of stockholders, the Company is unable to estimate the total number of stockholders represented by these record holders. The Company has never paid or declared any cash dividends on its common stock or other securities and does not anticipate paying cash dividends in the foreseeable future.

Item 6. *Selected Consolidated Financial Data*

	Year Ended September 30,				
	1999	1998	1997	1996	1995
	(in thousands except per share data)				
Operations:					
Total revenues	$ 43,370	$ 37,864	$26,015	$11,270	$ 7,364
Operating income (loss)	9,499	7,967	1,954	(4,568)	(6,053)
Net income (loss)	8,718	6,788	1,981	(4,415)	(7,020)
Net income (loss) per share-assuming dilution	$ 0.35	$ 0.28	$ 0.09	$ (0.78)	$ (1.33)
Financial Position (at year end):					
Total assets	$115,773	$110,987	$87,878	$12,868	$18,307
Total debt (capital lease obligations)	—	130	512	1,297	1,616
Stockholders' equity (deficit)	61,564	41,792	26,661	(12,144)	(7,936)

Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

The following discussion contains forward-looking statements, including without limitation the Company's expectations regarding revenues, expenses and results of operations. The Company's actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause future actual results to differ materially from the Company's recent results or those projected in the forward-looking statements include, but are not limited to, those discussed in ''Factors Affecting Future Results'' and below. The Company assumes no obligation to update the forward-looking statements or such factors.

Overview

Since its founding in 1990, Rambus has been engaged in the development of high-speed chip-to-chip interface technology which can be used to enhance the performance and cost-effectiveness of consumer electronics, computer systems and other electronic systems. The Company neither manufactures nor sells semiconductors incorporating the Company's technology. Rather, the Company licenses its technology on a nonexclusive and worldwide basis to semiconductor companies which manufacture and sell RDRAMs and logic ICs containing RACs to systems companies which have adopted Rambus technology. Systems companies are not required to obtain a Rambus license to incorporate licensed Rambus ICs into their products.

Revenues. The Company's revenues consist of contract fees and royalties. Contract fees are comprised of license fees, engineering service fees and nonrefundable, prepaid royalties, and represented approximately 82% of the Company's revenues in fiscal 1999, 76% in 1998, and 78% in 1997. The Company's contracts generally require a licensee to pay a contract fee to Rambus typically ranging from a few hundred thousand dollars for a narrow license covering a single logic product to millions of dollars for a license with broad coverage of Rambus technology. Part of these fees may be due upon the achievement of certain milestones, such as provision of certain deliverables by Rambus or production of chips by the licensee. All contract fees are nonrefundable.

In a few cases, the Company has received nonrefundable, prepaid royalties which offset the earliest royalty payments otherwise due from the licensee. As of September 30, 1999, $3.7 million of such nonrefundable, prepaid royalties had offset initial royalties, and the Company had a balance of $2.6 million remaining to be offset against future royalties.

Substantially all of the license fees, engineering service fees and nonrefundable, prepaid royalties are bundled together as contract fees because the Company generally does not provide or price these components separately. The contracts also generally include rights to upgrades and enhancements. Accordingly, Rambus recognizes contract revenues ratably over the period during which post-contract customer support is expected to be provided. The excess of contract fees received over contract revenue recognized is shown on the Company's balance sheet as ''deferred revenue.'' As of September 30, 1999, the Company's deferred revenue was $49.8 million, substantially all of which is scheduled to be recognized in varying amounts over the next four years.

Royalties, which are generally a percentage of the revenues received by a licensee on its sales of the Company's ICs, are normally payable by the licensee on sales occurring during the life of the Company's patents being licensed. For a typical application of the Company's technology, the Company receives royalties from the sale of both RDRAMs and logic ICs containing RACs. Royalty rates range up to a maximum of approximately 2.5% for RDRAMs and a maximum of approximately 5% for logic ICs, and in some cases may decline based on the passage of time or on the total volume of the Company's ICs shipped by a licensee. The exact rate and structure of a royalty arrangement with a particular licensee depend on a number of factors, including the amount of the contract fee paid by the licensee and the marketing and engineering commitment made by the licensee.

Rambus recognizes royalties from a licensee in the quarter in which it receives the report detailing shipments of Rambus ICs by such licensee in the prior quarter. The Company believes that royalties will

become an increasing portion of revenues over the long term. To date, a majority of the Company's royalties has been derived from the sale of logic ICs incorporating RACs. If the Company is successful in its strategy to penetrate the PC main memory market segment, the Company expects that royalties from the sale of RDRAMs will eventually account for the largest portion of royalties.

As of September 30, 1999, the Company had 31 licensees. Because all of the Company's revenues are derived from its relatively small number of licensees, the Company's revenues tend to be highly concentrated. In fiscal 1999, 1998, and 1997, revenues from the Company's top five licensees accounted for approximately 47%, 49% and 63% of the Company's revenues, respectively. In fiscal 1999, 1998, and 1997 NEC accounted for approximately 11%, 22% and 29% of revenues, respectively. Also in fiscal 1999, two other licensees accounted for 11% and 10% of revenues. In fiscal 1997, one other licensee accounted for 10% of total revenues. The Company expects that it will continue to experience significant revenue concentration for the foreseeable future. However, the particular licensees which account for revenue concentration may vary from period to period depending on the addition of new contracts, the expiration of deferred revenue schedules under existing contracts, and the volumes and prices at which the licensees sell Rambus ICs to systems companies in any given period.

The royalties received by the Company are also a function of the adoption of Rambus technology by systems companies and the acceptance of the systems companies' products by end users. The Company generally does not have a direct contractual relationship with systems companies, and the royalty reports submitted by the Company's licensees generally do not disclose the identity of, or unit volume of Rambus ICs purchased by, particular systems companies. As a result, it is difficult for the Company to predict the extent to which its future revenues will be dependent upon particular systems companies.

In fiscal 1999, 1998, and 1997, international revenues constituted 60%, 73% and 80% of the Company's total revenues, respectively. The Company expects that revenues derived from international licensees will continue to represent a significant portion of its total revenues in the future. All of the revenues from international licensees to date have been denominated in United States dollars.

Expenses. Since the Company's inception in 1990, its engineering costs (which consist of cost of contract revenues and research and development expenses) and marketing, general and administrative expenses have continually increased as the Company has added personnel and ramped up its activities in these areas. Engineering costs and marketing, general and administrative expenses generally have decreased as a percentage of revenues throughout this period due to the relatively rapid revenue base expansion which the Company experienced as it began entering into license agreements. The Company intends to continue making significant expenditures associated with engineering, marketing, general and administration, and expects that these costs and expenses will continue to be a significant percentage of revenues in future periods. Whether such expenses increase or decrease as a percentage of revenues will be substantially dependent upon the rate at which the Company's revenues change.

Engineering costs are allocated between cost of contract revenues and research and development expenses. Cost of contract revenues is determined based on the portion of engineering costs which have been incurred during the period for the adaptation of Rambus interface technology for specific licensee processes. The balance of engineering costs, incurred for general development of Rambus technology, 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 development and implementation cycles. As a generation of technology matures from the development stage through implementation, the majority of engineering costs shifts from research and development expenses to cost of contract revenues. Engineering costs are recognized as incurred and do not correspond to the recognition of revenues under the related contracts.

Marketing, general and administrative expenses include salaries, travel expenses and costs associated with trade shows, advertising, finance and other marketing and administrative efforts. Costs of technical support for systems companies, including applications engineering, are also charged to marketing, general and

administrative expense. Consistent with the Company's business model, sales and marketing activities are focused on developing relationships with potential licensees and on participating with existing licensees in marketing, sales and technical efforts directed to systems companies. In many cases, Rambus must dedicate substantial resources to the marketing and support of systems companies. Due to the long business development cycles faced by the Company and the semi-fixed nature of administrative expenses, marketing, general and administrative expenses in a given period generally are unrelated to the level of revenues in that period or in recent or near-term future periods.

Taxes. The Company reports certain items of income and expense for financial reporting purposes in different years than they are reported in the tax return. Specifically, the Company reports contract fees and royalties when received for tax purposes, as required by tax law. For financial reporting purposes, the Company records revenues from contract fees over the period post-contract support is expected to be provided. Thus, the Company recognizes revenue earlier for tax than for financial reporting purposes. Accordingly, the Company's net operating loss for tax purposes may be more or less than the cumulative operating deficit recorded for financial reporting purposes.

Results of Operations

The following table sets forth, for the fiscal years indicated, the percentage of total revenues represented by certain items reflected in the Company's consolidated statements of operations:

	1999	1998	1997
Revenues:			
Contract revenues	81.5%	75.9%	77.6%
Royalties	18.5	24.1	22.4
Total revenues	100.0%	100.0%	100.0%
Costs and expenses:			
Cost of contract revenues	28.2	23.7	21.1
Research and development	18.7	25.5	37.7
Marketing, general and administrative	31.2	29.8	33.7
Total costs and expenses	78.1	79.0	92.5
Operating income	21.9	21.0	7.5
Other income, net	10.0	8.9	5.2
Income before income taxes	31.9	29.9	12.7
Provision for income taxes	11.8	12.0	5.1
Net income	20.1%	17.9%	7.6%

Revenues. Revenues were $43.4 million, $37.9 million and $26.0 million in fiscal 1999, 1998 and 1997, respectively. Contract revenues increased 42.3% to $28.7 million in fiscal 1998 and increased 23.1% to $35.4 million in fiscal 1999 primarily as a result of the Company's entering into contracts with new licensees and additional contracts with current licensees for new developments. In addition, fiscal 1999 contract revenues include approximately $500,000 of previously deferred income from cancellation of a contract by Rambus due to nonperformance of a licensee, and approximately $3.3 million of previously deferred income due to a change in management's estimate of certain contract revenue recognition periods. Such periods are initially estimated based on management's judgment of the time over which the Company has an obligation to support its licensees. As the new generation of RDRAMs goes into production, a more accurate estimate of remaining support can be made. To the extent the new estimated period is less than the original estimate there will be a temporary increase in the amount of deferred revenue recognized. In general, the Company expects that contract revenues will decline over time due to the expiration of the period for revenue recognition on contracts

booked previously, and also due to the Company's past success in signing licensees which reduces the potential number of new licensees. However, in the short term contract revenues may temporarily increase due to accelerated revenue recognition based on a combination of changes in management's estimate of contract revenue recognition periods and pending mergers and product abandonments in the DRAM industry which could result in additional contract terminations.

In fiscal 1998, royalties increased 56.8% to $9.1 million or 24.1% of total revenues. Royalties were primarily from NEC and, the Company believes, were largely based on sales of Rambus ICs for use in the Nintendo 64 home video game system. In fiscal 1999, royalties decreased 12.3% to $8.0 million or 18.5% of total revenues. The Company believes that this decrease was a result of declining sales and/or prices for the Rambus ICs used by Nintendo as well as steep price declines in the DRAM market. The Company anticipates that its potential to generate royalties in fiscal 2000 will be largely dependent on system sales by PC manufacturers, Sony and, to a decreasing degree, Nintendo. All of these companies face intense competitive pressure in the PC and home video game markets, which are characterized by extreme volatility, seasonal fluctuations, frequent new product introductions and rapidly shifting consumer preferences, and there can be no assurance as to the unit volumes of Rambus ICs which they will purchase in the future or the level of royalty-bearing revenues that the Company's licensees will receive. None of these companies is under any obligation to continue using Rambus technology in their current products or to incorporate Rambus technology into future products.

Engineering Costs. Engineering costs, consisting of cost of contract revenues and research and development expenses, were $20.4 million, $18.6 million and $15.3 million which represented 46.9%, 49.2% and 58.8% of revenues, in fiscal 1999, 1998 and 1997, respectively. The increase in engineering costs was due primarily to an increase in engineering personnel, and the decrease as a percentage of revenues was primarily the result of the Company's growth in revenues.

Cost of Contract Revenues. Cost of contract revenues were $12.2 million, $9.0 million and $5.5 million, which represented 28.2%, 23.7% and 21.1% of revenues, in fiscal 1999, 1998 and 1997, respectively. In fiscal 1998, cost of contract revenues increased 63.7% to $9.0 million, and increased as a percentage of revenues, primarily due to the beginning of the transition of the Company's next generation technology from the design to the implementation stage. In fiscal 1999, cost of contract revenues increased 36.1% to $12.2 million, and increased as a percentage of revenues, as the Company focused its engineering resources on the ramp of its next generation technology into the PC main memory market. The Company believes that the level of cost of contract revenues will continue to fluctuate in the future, both in absolute dollars and as a percentage of revenues, as new generations of Rambus ICs go through the normal development and implementation phases.

Research and Development. Research and development expenses were $ 8.1 million, $9.6 million, and $9.8 million, which represented 18.7%, 25.5% and 37.7% of revenues, in fiscal 1999, 1998 and 1997, respectively. In fiscal 1998, research and development expenses decreased 1.7% compared to 1997, and decreased as a percentage of total revenues, as the major portion of design work on the next generation of Rambus technology was completed and engineering focus moved to implementation activities. Similarly, in fiscal 1999 research and development expenses decreased 15.8% compared to 1998, and decreased as a percentage of total revenues, as additional engineering resources were transferred to the support of Intel, RDRAM licensees, PC OEMs and infrastructure providers on the ramp of Rambus technology into the PC main memory market. The Company expects research and development expenses to increase over time as it enhances and improves its technology and applies it to new generations of ICs. The rate of increase of, and the percentage of revenues represented by, research and development expenses in the future will vary from period to period based on the research and development projects underway and the change in engineering headcount in any given period, as well as the rate of change in the Company's total revenues.

Marketing, General and Administrative. Marketing, general and administrative expenses were $13.5 million, $11.3 million and $8.8 million, which represented 31.2%, 29.8% and 33.7% of revenues, in fiscal 1999, 1998 and 1997, respectively. The increase in absolute dollars in fiscal 1999 and 1998 and the

increase in marketing, general and administrative expenses as a percentage of revenues in 1999 was primarily due to a buildup of the marketing and sales teams in both the U.S. and Japan as well as increased costs associated with applications engineering and other technical support provided to systems companies. The decrease in marketing, general and administrative expenses as a percentage of revenues in 1998 reflects the increased revenue base. The Company expects marketing, general and administrative expenses to increase in the future as the Company puts additional effort into marketing its technology and assisting systems companies to adapt this technology to new generations of products. The rate of increase of, and the percentage of revenues represented by, marketing, general and administrative expenses in the future will vary from period to period based on the trade shows, advertising and other sales and marketing activities undertaken and the change in sales, marketing and administrative headcount in any given period, as well as the rate of change in the Company's total revenues.

Other Income, Net. Other income, net consists primarily of interest income from the Company's short-term cash investments, offset by interest expense on leases and other equipment financing. Other income, net was $4.3 million, $3.4 million and $1.3 million, which represented 10.0%, 8.9% and 5.2% of revenues, in fiscal 1999, 1998 and 1997, respectively. The increase in absolute dollars was due to interest on higher average marketable securities, cash and cash equivalent balances, offset by interest associated with leased equipment. The Company expects net other income to increase in the future due to additional interest income on higher cash balances.

Provision for Income Taxes. The Company recorded a provision for income taxes of $5.1 million in fiscal 1999, $4.5 million in fiscal 1998 and $1.3 million in fiscal 1997. The estimated federal and state combined rate on income before income taxes was 40% for the 1997 and 1998 provisions and 37% for the 1999 provision. The Company's effective tax rate differs from the statutory rate due to timing differences related to the recognition of contract revenues for tax and financial reporting purposes.

At September 30, 1999 the Company had gross deferred tax assets of approximately $27 million, primarily relating to the difference between tax and book treatment of deferred revenue. The Company has established a partial valuation allowance against its deferred tax assets due to the uncertainty surrounding the realization of such assets. The deferred tax assets of approximately $27 million, net of the valuation allowance of $21 million, as of September 30, 1999 represents management's estimate of those tax assets which it believes will more likely than not (a probability of just over fifty percent) be realized. The deferred tax asset valuation allowance is subject to periodic adjustment as facts and circumstances warrant.

Contingent Warrants

In January 1997 the Company granted a warrant to Intel Corporation for the purchase of 1,000,000 shares of Rambus common stock at an exercise price of $10.00 per share. The warrant will become exercisable only upon the achievement of certain milestones by Intel relating to shipment volumes of Rambus-based chipsets. At the time that the achievement of the milestones becomes probable, a charge will be made to the statement of operations based on the fair value of the warrant.

In October 1998, the Company's Board of Directors authorized an incentive program in the form of warrants on a total of up to 400,000 shares of Rambus common stock to be issued to various Rambus Direct DRAM partners upon the achievement of certain product qualification and volume production targets. The warrants, to be issued at the time the targets are met, will have an exercise price of $10.00 per share and a life of five years. They will vest and become exercisable on the same basis as the Intel warrant, which will result in a charge to the statement of operations based on the fair value of the warrants at the time the achievement of the Intel milestones becomes probable. As of September 30, 1999 a total of 30,000 of these warrants had been issued.

Liquidity and Capital Resources

As of September 30, 1999 the Company had cash and cash equivalents and marketable securities of $95.3 million, including restricted cash of $2.5 million and a long-term component of $5.7 million. As of the same date, the Company had total working capital of $61.8 million, including a short-term component of deferred revenue of $32.3 million. Deferred revenue represents the excess of cash received from licensees over revenue recognized on license contracts, and the short-term component represents the amount of this deferred revenue expected to be recognized over the next twelve months. Without the short-term component of deferred revenue, working capital would have been $94.1 million at September 30, 1999.

The Company's operating activities provided net cash of $4.1 million, $16.3 million and $31.9 million in fiscal 1999, 1998 and 1997, respectively. Cash generated by operations in fiscal 1997 and 1998 was primarily the result of increases in deferred revenue and net income adjusted for non-cash items, offset by net payments, provisions and adjustments relating to income taxes. The increase in deferred revenue for both years was due to new billings on license contracts in excess of revenues recognized thereon. In 1999 deferred revenue decreased due to the recognition of contract revenues in excess of new billings, but this was more than offset by cash generated from net income adjusted for non-cash items and adjustments relating to income taxes.

Net cash used in investing activities was $19.8 million, $14.4 million and $47.2 million in fiscal 1999, 1998 and 1997, respectively. Investing activities have consisted primarily of net purchases of marketable securities and purchases of property and equipment.

Net cash provided by financing activities were $4.7 million, $3.4 million and $35.2 million in fiscal 1999, 1998 and 1997, respectively. Net cash provided by financing activities in fiscal 1997 was primarily due to completion of the Company's initial public offering of its common stock. Net cash provided by financing activities in fiscal 1998 and 1999 was primarily due to proceeds from the sale of common stock under the Company's Employee Stock Purchase and Option plans.

The Company presently anticipates that existing cash balances will be adequate to meet its cash needs for at least the next 12 months.

Impact of Year 2000

To the extent permitted by law, the disclosure included in this paragraph is intended to constitute Year 2000 readiness disclosure within the meaning of the Year 2000 Information and Readiness Disclosure Act. As part of the transfer of technology to its licensees, the Company provides information in the form of implementation packages which include specifications, circuit layout databases, test parameter software and, in the case of RDRAMs, core interface specifications. Such information is not date sensitive and therefore not subject to Year 2000 problems. Since the Company does not sell any other kind of product, internal Year 2000 issues are confined to its engineering design and administrative systems. The Company has assessed the readiness of its internal computer systems and outside services for handling the Year 2000. The remediation process is underway and will be complete in all material respects by year-end. The Company believes that its internal computer systems and outside services will be Year 2000 compliant and that the risk of major disruption from these systems and services due to Year 2000 issues is minimal. Through September 30, 1999, the Company has not incurred any significant costs to ensure its internal computer systems and outside services are Year 2000 compliant, other than software purchases and upgrades which were purchased in the Company's normal course of business. The Company does not expect the cost of implementation for its internal computer systems and outside services to have a material impact on the Company's financial position or results of operations. However, the Company could be negatively affected to the extent that Year 2000 problems at its licensees or their customers could affect the shipment of Rambus ICs and the payment of royalties to the Company. Such effects on its licensees or their customers could cause the Company to miss quarterly analysts' estimates of its revenue and profits. The Company has no way of analyzing the probability of Year 2000 problems at its licensees or their customers, and therefore, there can be no assurance that the Company's licensees or their customers will be Year 2000 compliant or, in any event, that the Company will not be negatively affected from Year 2000 issues.

Recent Accounting Pronouncements

In December 1998, AcSEC released Statement of Position 98-9 or SOP 98-9, Modification of SOP 97-2, ''Software Revenue Recognition.'' SOP 98-9 amends SOP 97-2 to require that an entity recognize revenue for multiple element arrangements by means of the ''residual method'' when (1) there is no vendor-specific objective evidence (''VSOE'') of the fair values of all the undelivered elements that are not accounted for by means of long-term contract accounting, (2) VSOE of fair value does not exist for one or more of the delivered elements, and (3) all revenue recognition criteria of SOP 97-2 (other than the requirement for VSOE of the fair value of each delivered element) are satisfied. The provisions of SOP 98-9 that extend the deferral of certain paragraphs of SOP 97-2 became effective December 15, 1998. These paragraphs of SOP 97-2 and SOP 98-9 will be effective for transactions that are entered into in fiscal years beginning after March 15, 1999. Retroactive application is prohibited. The Company is currently evaluating the impact of the requirements of SOP 98-9 and the effects, if any, on its current revenue recognition policies.

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, or SFAS 133, ''Accounting for Derivative Instruments and Hedging Activities.'' SFAS 133 establishes new standards of accounting and reporting for derivative instruments and hedging activities. SFAS 133 requires that all derivatives be recognized at fair value in the statement of financial position, and that the corresponding gains or losses be reported either in the statement of operations or as a component of comprehensive income, depending on the type of hedging relationship that exists. In July 1999, the Financial Accounting Standard Boards issued SFAS No. 137, or SFAS 137, ''Accounting for Derivative Instruments and Hedging Activities—Deferral of the Effective Date of SFAS No. 133.'' SFAS 137 deferred the effective date of SFAS 133 until the first fiscal quarter beginning after June 15, 2000. The Company does not currently hold derivative instruments or engage in hedging activities. The Company is continuing to evaluate the impact of the requirements of SFAS 133 and SFAS 137 will have on its financial statements and related disclosures.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The Company's exposure to market risk for changes in interest rates relates primarily to the Company's investment portfolio. The Company places its investments with high credit issuers and by policy limits the amount of credit exposure to any one issuer. As stated in its policy, the Company will ensure the safety and preservation of its 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.

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 ensure portfolio liquidity.

The table below presents the carrying value and related weighted average interest rates for the Company's investment portfolio. The carrying value approximates fair value at September 30, 1999.

	Carrying Value	Average Rate of Return at September 30, 1999
	(in thousands)	(annualized)
Marketable securities:		
Cash equivalents	$12,415	5.3%
Corporate notes and bonds	23,528	4.0%
Municipal notes and bonds	29,297	3.5%
United States government debt securities	24,991	5.1%
Total marketable securities	$90,231	

Item 8. Financial Statements and Supplementary Data

See Item 14 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.

PART III

Certain information required by Part III is omitted from this Report on Form 10-K since the Registrant will file its definitive Proxy Statement for its next Annual Meeting of Stockholders, pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended (the ''Proxy Statement''), not later than 120 days after the end of the fiscal year covered by this Report, and certain information to be included in the Proxy Statement is incorporated herein by reference.

Item 10. *Directors and Executive Officers of the Registrant*

The information required by this item concerning the Company's directors and executive officers is incorporated by reference to the information set forth in the sections entitled ''Executive Officer Compensation —Executive Officers of the Company'' in the Company's Proxy Statement for the 2000 Annual Meeting of Stockholders to be filed with the Commission within 120 days after the end of the Company's fiscal year ended September 30, 1999.

Item 11. *Executive Compensation*

The information required by this item regarding executive compensation is incorporated by reference to the information set forth in the sections entitled ''Proposal One—Election of Directors—Director Compensation'' and ''Executive Officer Compensation'' in the Company's Proxy Statement for the 2000 Annual Meeting of Stockholders to be filed with the Commission within 120 days after the end of the Company's fiscal year ended September 30, 1999.

Item 12. *Security Ownership of Certain Beneficial Owners and Management*

The information required by this item regarding security ownership of certain beneficial owners and management is incorporated by reference to the information set forth in the section entitled ''Share Ownership by Principal Stockholders and Management'' in the Company's Proxy Statement for the 2000 Annual Meeting of Stockholders to be filed with the Commission within 120 days after the end of the Company's fiscal year ended September 30, 1999.

Item 13. *Certain Relationships and Related Transactions*

The information required by this item regarding certain relationships and related transactions is incorporated by reference to the information set forth in the section entitled ''Certain Transactions with Management'' in the Company's Proxy Statement for the 2000 Annual Meeting of Stockholders to be filed with the Commission within 120 days after the end of the Company's fiscal year ended September 30, 1999.

PART IV

Item 14. *Exhibits, Financial Statement Schedules, and Reports on Form 8-K*

(a) (1) Financial Statements

Page

The following consolidated financial statements of the Registrant and Report of PricewaterhouseCoopers LLP, Independent Accountants, are included herewith:

Report of PricewaterhouseCoopers LLP, Independent Accountants 28
Consolidated Balance Sheets as of September 30, 1999 and 1998 29
Consolidated Statements of Operations for the years ended September 30, 1999, 1998, and 1997 30
Consolidated Statements of Stockholders' Equity for the years ended September 30, 1999, 1998, and 1997 31
Consolidated Statements of Cash Flows for the years ended September 30, 1999, 1998, and 1997 32
Notes to Consolidated Financial Statements 33
Consolidated Supplementary Financial Data 45

(a) (2) Financial Statement Schedules

Schedule II—Valuation and Qualifying Accounts 47

This financial statement schedule of the Company for each of the years ended September 30, 1999, 1998 and 1997 is filed as part of this Form 10-K and should be read in conjunction with the Consolidated Financial Statements, and related notes thereto, of the Company. All other financial statement schedules have been omitted because the required information is not present or not present in amounts sufficient to require submission of the schedule or because the information required is included in the consolidated financial statements or notes thereto.

Item 14. *Exhibits, Financial Statement Schedules, and Reports on Form 8-K (Continued)*

(a) (3) Exhibits

Exhibit Number	Description of Document
3.1(3)	Amended and Restated Certificate of Incorporation of Registrant filed May 29, 1997.
3.2	Amended and Restated Bylaws of Registrant dated October 20, 1999.
4.1(1)	Form of Registrant's Common Stock Certificate.
4.2(1)	Amended and Restated Information and Registration Rights Agreement, dated as of January 7, 1997, between Registrant and the parties indicated therein.
4.3(1)	Form of Preferred Shares Rights Agreement dated April 1, 1997.
4.4(1)	Common Stock Purchase Warrant dated January 7, 1997.
10.1(1)	Form of Indemnification Agreement entered into by Registrant with each of its directors and executive officers.
10.2(1) (2)	Semiconductor Technology License Agreement, dated as of July 4, 1991, between Registrant and NEC Corporation.
10.2.1(1) (2)	Amendment No. 1 to Semiconductor Technology License Agreement, dated as of April 28, 1995, between Registrant and NEC Corporation.
10.2.2(1) (2)	Supplement No. 1 to Semiconductor Technology License Agreement, dated as of February 25, 1993, between Registrant and NEC Corporation.
10.2.3(1) (2)	Supplement No. 2 to Semiconductor Technology License Agreement, dated as of July 28, 1994, between Registrant and NEC Corporation.
10.2.4(1) (2)	Supplement No. 4 to Semiconductor Technology License Agreement, dated as of August 31, 1995, between Registrant and NEC Corporation.
10.2.5(1) (2)	Supplement No. 5 to Semiconductor Technology License Agreement, dated as of November 14, 1994, between Registrant and NEC Corporation.
10.2.6(1) (2)	Supplement No. 6 to Semiconductor Technology License Agreement, dated as of December 27, 1994, between Registrant and NEC Corporation.
10.2.7(1) (2)	Supplement No. 8 to Semiconductor Technology License Agreement, dated as of September 27, 1996, between Registrant and NEC Corporation.
10.2.8(1) (2)	Supplement No. 9 to Semiconductor Technology License Agreement, dated as of September 10, 1996, between Registrant and NEC Corporation.
10.2.9(1) (2)	Supplement No. 10 to Semiconductor Technology License Agreement, dated as of February 27, 1997, between Registrant and NEC Corporation.
10.2.10(1) (2)	Supplement No. 11 to Semiconductor Technology License Agreement, dated as of March 4, 1997, between Registrant and NEC Corporation.
10.2.11(3)	TRAC Addendum to Supplement No. 11 to Semiconductor Technology License Agreement, dated as of April 23, 1997, between Registrant and NEC Corporation.
10.2.12(3)	Supplement No. 12 to Semiconductor Technology License Agreement, dated as of September 26, 1997, between Registrant and NEC Corporation.
10.2.13	Supplement No. 13 to Semiconductor Technology License Agreement, dated as of February 16, 1999, between Registrant and NEC Corporation.
10.4(1) (2)	Semiconductor Technology License Agreement, dated as of November 15, 1996, between Registrant and Intel Corporation.
10.4.1(4)	Amendment No. 1 to Semiconductor Technology License Agreement, dated as of July 10, 1998, between Registrant and Intel Corporation.

Item 14. ***Exhibits, Financial Statement Schedules, and Reports on Form 8-K (Continued)***

(a) (3) Exhibits (Continued)

10.5(1)	1990 Stock Plan, as amended, and related forms of agreements.
10.6(1)	1997 Stock Plan and related forms of agreements.
10.7(1)	1997 Employee Stock Purchase Plan and related forms of agreements.
10.8(1)	Standard Office Lease, dated as of March 10, 1991, between Registrant and South Bay/Latham.
10.9(1)	Form of Promissory Note between the Registrant and certain executive officers.
10.10	Office Lease, dated as of August 27, 1999, between Registrant and Los Altos—El Camino Associates, LLC.
10.11	Common Stock Equivalent Agreement, dated as of October 20, 1999, between the Registrant and Geoff Tate.
10.12	Common Stock Equivalent Agreement, dated as of October 20, 1999, between the Registrant and David Mooring.
21.1(1)	Subsidiaries of the Registrant.
23.1	Consent of PricewaterhouseCoopers LLP, Independent Accountants.
27.1	Financial Data Schedule.

(1) Incorporated by reference to Registration Statement No. 333-22885.
(2) Confidential treatment was granted with respect to certain portions of this exhibit. Omitted portions were filed separately with the Securities and Exchange Commission.
(3) Incorporated by reference to the Form 10-K filed on December 15, 1997.
(4) Incorporated by reference to the Form 10-K filed on December 9, 1998.

(b) Reports on Form 8-K

No Current Report on Form 8-K was filed in the fourth quarter ended September 30, 1999.

REPORT OF INDEPENDENT ACCOUNTANTS

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, stockholders' equity and of cash flows present fairly, in all material respects, the financial position of Rambus Inc. and its subsidiary at September 30, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 1999, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

San Jose, California
October 14, 1999

RAMBUS INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

	September 30,	
	1999	1998
	(in thousands, except share and per share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 14,982	$ 25,798
Marketable securities	72,158	53,913
Accounts receivable, less allowance for doubtful accounts of $10 in 1999 and 1998	1,499	1,913
Prepaid and deferred taxes	7,579	7,829
Prepaids and other current assets	2,260	2,340
Total current assets	98,478	91,793
Property and equipment, net	4,232	3,989
Marketable securities, long-term	5,658	8,357
Restricted cash	2,500	—
Deferred taxes, long-term	4,123	4,720
Other assets	782	2,128
Total assets	$ 115,773	$ 110,987
LIABILITIES		
Current liabilities:		
Accounts payable	$ 265	$ 459
Income taxes payable	—	12
Accrued salaries and benefits	3,090	1,940
Other accrued liabilities	1,070	1,017
Current portion of:		
Capital lease obligations	—	130
Deferred revenue	32,279	28,617
Total current liabilities	36,704	32,175
Deferred revenue, less current portion	17,505	37,020
Total liabilities	54,209	69,195
Commitments and contingencies (Notes 6 and 7)		
STOCKHOLDERS' EQUITY		
Convertible preferred stock, $.001 par value: Authorized: 5,000,000 shares; Issued and outstanding: no shares at September 30, 1999 and September 30, 1998	—	—
Common stock, $.001 par value: Authorized: 60,000,000 shares; Issued and outstanding: 23,702,668 shares at September 30, 1999 and 22,925,885 shares at September 30, 1998	24	23
Additional paid-in capital	78,574	67,617
Accumulated deficit	(17,005)	(25,723)
Accumulated other comprehensive loss	(29)	(125)
Total stockholders' equity	61,564	41,792
Total liabilities and stockholders' equity	$ 115,773	$ 110,987

See Notes to Consolidated Financial Statements.

RAMBUS INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended September 30,		
	1999	1998	1997
	(in thousands, except per share amounts)		
Revenues:			
Contract revenues	$35,353	$28,727	$20,186
Royalties	8,017	9,137	5,829
Total revenues	43,370	37,864	26,015
Costs and expenses:			
Cost of contract revenues	12,232	8,988	5,491
Research and development	8,123	9,649	9,815
Marketing, general and administrative	13,516	11,260	8,755
Total costs and expenses	33,871	29,897	24,061
Operating income	9,499	7,967	1,954
Interest and other income, net	4,346	3,413	1,536
Interest expense	(7)	(52)	(194)
Income before income taxes	13,838	11,328	3,296
Provision for income taxes	5,120	4,540	1,315
Net income	$ 8,718	$ 6,788	$ 1,981
Net income per share—basic	$ 0.37	$ 0.30	$ 0.10
Net income per share—assuming dilution	$ 0.35	$ 0.28	$ 0.09
Number of shares used in per share calculations:			
Basic	23,332	22,704	19,548
Assuming dilution	25,052	24,376	21,510

See Notes to Consolidated Financial Statements.

RAMBUS INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
for the years ended September 30, 1999, 1998 and 1997

	Convertible Preferred Stock		Common Stock		Additional Paid-In Capital	Stockholders' Notes Receivable	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
	Shares	Amount	Shares	Amount					
					(in thousands)				
Balances, September 30, 1996	11,297	$ 11	5,759	$ 6	$ 22,330	$ —	$(34,492)	$ 1	$(12,144)
Components of comprehensive income:									
Net income	—	—	—	—	—	—	1,981	—	1,981
Foreign currency translation adjustments	—	—	—	—	—	—	—	(36)	(36)
Total comprehensive income									1,945
Issuance of common stock upon initial public offering, net of issuance costs of $3,832	—	—	3,163	3	34,114	—	—	—	34,117
Issuance of common stock upon exercise of options	—	—	2,092	2	2,564	(1,047)	—	—	1,519
Conversion of preferred stock to common stock	(11,297)	(11)	11,297	11	—	—	—	—	—
Repayments of stockholders' notes receivable	—	—	—	—	—	367	—	—	367
Tax benefit of stock option exercises	—	—	—	—	857	—	—	—	857
Balances, September 30, 1997	—	—	22,311	22	59,865	(680)	(32,511)	(35)	26,661
Components of comprehensive income:									
Net income	—	—	—	—	—	—	6,788	—	6,788
Foreign currency translation adjustments	—	—	—	—	—	—	—	(90)	(90)
Total comprehensive income									6,698
Issuance of common stock upon exercise of options, net	—	—	432	1	1,217	—	—	—	1,218
Issuance of common stock under Employee Stock Purchase Plan	—	—	183	—	1,880	—	—	—	1,880
Repayments of stockholders' notes receivable	—	—	—	—	—	680	—	—	680
Issuance of warrant	—	—	—	—	568	—	—	—	568
Tax benefit of stock option exercises	—	—	—	—	4,087	—	—	—	4,087
Balances, September 30, 1998	—	—	22,926	23	67,617	—	(25,723)	(125)	41,792
Components of comprehensive income:									
Net income	—	—	—	—	—	—	8,718	—	8,718
Foreign currency translation adjustments	—	—	—	—	—	—	—	201	201
Unrealized loss on marketable securities	—	—	—	—	—	—	—	(105)	(105)
Total comprehensive income									8,814
Issuance of common stock upon exercise of options, net	—	—	590	1	2,822	—	—	—	2,823
Issuance of common stock under Employee Stock Purchase Plan	—	—	187	—	2,032	—	—	—	2,032
Tax benefit of stock option exercises	—	—	—	—	6,103	—	—	—	6,103
Balances, September 30, 1999	—	$ —	23,703	$24	$78,574	$ —	$(17,005)	$ (29)	$ 61,564

See Notes to Consolidated Financial Statements.

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RAMBUS INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended September 30,		
	1999	1998	1997
		(in thousands)	
Cash flows from operating activities:			
Net income	$ 8,718	$ 6,788	$ 1,981
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	3,127	2,835	2,070
Non-cash compensation expense for issuance of warrant	—	568	—
(Gain) loss on investments and other	(531)	666	45
Change in operating assets and liabilities:			
Accounts receivable	414	(988)	(207)
Prepaid taxes	2,191	1,768	—
Prepaids and other current assets	80	(308)	(1,160)
Other assets	195	(81)	(1,414)
Accounts payable	(194)	81	150
Deferred taxes	4,759	(3,253)	(5,974)
Income taxes payable	(12)	(3,280)	4,065
Accrued salaries and benefits	1,150	473	1,116
Other accrued liabilities	35	(57)	394
Deferred revenue	(15,853)	11,098	30,861
Net cash provided by operating activities	4,079	16,310	31,927
Cash flows from investing activities:			
Purchase of property and equipment	(3,292)	(2,229)	(3,854)
Proceeds from sale of property and equipment	—	6	4
Purchases of marketable securities	(1,118,281)	(313,525)	(279,222)
Maturities of marketable securities	1,102,630	302,439	235,850
Purchase of investments	(1,200)	(1,150)	—
Sale of investments	2,822	—	—
Increase in restricted cash	(2,500)	—	—
Net cash used in investing activities	(19,821)	(14,459)	(47,222)
Cash flows from financing activities:			
Net proceeds from issuance of common stock	4,855	3,098	35,636
Repayments of stockholders' notes receivable	—	680	367
Proceeds from bank loans	—	—	794
Principal payments on bank loans	—	—	(794)
Principal payments on capital lease obligations	(130)	(382)	(773)
Net cash provided by financing activities	4,725	3,396	35,230
Effect of exchange rates on cash and cash equivalents	201	(90)	(36)
Net increase (decrease) in cash and cash equivalents	(10,816)	5,157	19,899
Cash and cash equivalents at beginning of period	25,798	20,641	742
Cash and cash equivalents at end of period	$ 14,982	$ 25,798	$ 20,641
Supplemental disclosure of cash flow information:			
Interest paid	$ 7	$ 52	$ 194
Taxes paid	408	8,874	4,224
License of technology for common stock	—	—	1,200
Issuance of stockholders' notes receivable	—	—	1,047
Tax benefit of stock option exercises	6,103	4,087	857

See Notes to Consolidated Financial Statements.

RAMBUS INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Formation and Business of the Company

Rambus Inc. and Subsidiary (the Company) designs, develops, licenses and markets high-speed chip-to-chip interface technology to enhance the performance and cost-effectiveness of computers, consumer electronics, and other electronic systems. The Company licenses semiconductor companies to manufacture and sell memory and logic ICs incorporating Rambus interface technology and markets its solution to systems companies to encourage them to design Rambus interface technology into their products.

The Company was incorporated in California in March 1990 and reincorporated in Delaware in March 1997.

2. Summary of Significant Accounting Policies

Financial Statement Presentation

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Rambus K.K., located in Tokyo, Japan. All intercompany accounts and transactions have been eliminated in the accompanying consolidated financial statements. Identifiable assets and revenues of the subsidiary are not significant. Investments with less than 20% ownership by the Company are recorded using the cost method.

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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

The Company has entered into nonexclusive technology agreements with semiconductor licensees. These agreements provide a license to use the Company's proprietary technology and to receive engineering implementation services, customer support, and enhancements.

The Company delivers to a new licensee an implementation package which contains all information needed to develop a Rambus chip in the licensee's process. An implementation package includes a specification, a generalized circuit layout database software for the particular version of the chip which the licensee intends to develop, test parameter software and, for memory chips, a core interface specification. Test parameters are the programs that test the Rambus technology embedded in the customer's product. Many licensees have contracted to have Rambus provide the specific engineering implementation services required to optimize the generalized circuit layout for the licensee's manufacturing process. The contracts also provide for the right to receive ongoing customer support which includes technical advice on chip specifications, enhancements, debugging and testing.

The Company recognizes revenue consistent with American Institute of Certified Public Accountants (AICPA) Statement of Position No. 97-2 (SOP 97-2), ''Software Revenue Recognition,'' as amended by Statement of Position 98-4, ''Deferral of the Effective Date of Certain Provisions of SOP 97-2,'' effective January 1, 1998. This SOP applies to all entities that earn revenue on products containing software, where software is not incidental to the product as a whole. The Company's adoption of SOP 97-2, as amended, in the first quarter of fiscal 1999 had no material impact on the Company's results of operations.

RAMBUS INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Contract fees for the services provided under these agreements are comprised of license fees, engineering service fees and nonrefundable, prepaid royalties. Contract fees are bundled together as the total price of the agreement does not vary as a result of inclusion or exclusion of services. Accordingly, the revenues from such contract fees are recognized ratably over the period during which the post-contract customer support is expected to be provided independent of the payment schedules under the contract, including milestones. Fiscal 1999 contract revenues include approximately $3.3 million of previously deferred income due to a change in management's estimate of certain contract revenue recognition periods. Such periods are initially estimated based on management's judgment of the time over which the Company has an obligation to support its licensees. As the new generation of RDRAMs goes into production, a more accurate estimate of remaining support can be made. To the extent the new estimated period is less than the original estimate there will be a temporary increase in the amount of deferred revenue recognized.

At the time the Company begins to recognize revenue under the contract, the remaining obligations, as defined by the SOP, are no longer significant. These remaining obligations are primarily to keep the product updated and include activities such as responding to inquiries and periodic customer meetings.

Part of these contract fees may be due upon the achievement of certain milestones, such as provision of certain deliverables by the Company or production of chips by the licensee. The remaining fees are due on pre-determined dates and include significant up-front fees.

The Company recognizes royalties upon notification of sale by its licensees. The terms of the royalty agreements generally require licensees to give notification to the Company and to pay royalties within 60 days of the end of the quarter during which the sales take place.

Research and Development

Costs incurred in research and development 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. The Company has not capitalized any software development costs since such costs have not been significant.

Income Taxes

The Company accounts for income taxes under the liability method whereby deferred tax asset or liability account balances are calculated at the balance sheet date using current laws and rates in effect. Research and development credits are accounted for using the flow-through method.

Computation of Net Income Per Share

Net income per share is calculated in accordance with Financial Accounting Standards Board Statement No. 128, ''Earnings Per Share'' (SFAS 128), which requires the presentation of basic and diluted earnings per share. Basic earnings per share is calculated using the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated using the weighted average number of common share and common stock equivalents, if dilutive, outstanding during the period.

Stock-Based Compensation

The Company accounts for stock-based awards to employees using the intrinsic value method in accordance with Accounting Principles Board Opinion No. 25, ''Accounting for Stock Issued to Employees.''

As the Company grants stock options with exercise prices equivalent to fair market value, no compensation cost has been recognized for its stock plans. The Company provides additional pro forma disclosures as required under Statement of Financial Accounting Standards No. 123 (SFAS 123), ''Accounting for Stock-Based Compensation.'' See Note 7.

Cash and Cash Equivalents

Cash equivalents are highly liquid investments with original or remaining maturities of three months or less at the date of purchase. Cash equivalents present risk of changes in value because of interest rate changes. The Company maintains its cash balances with high quality financial institutions and has not experienced any material losses.

Marketable Securities

Available-for-sale securities are carried at fair value, based on quoted market prices, with the unrealized gains or losses, net of tax, reported in stockholders' equity. 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 income. Realized gains and losses are recorded on the specific identification method.

Fair Value of Financial Instruments

The amounts reported for cash equivalents, receivables and other financial instruments are considered to approximate fair values based upon comparable market information available at the respective balance sheet dates.

Property and Equipment

Property and equipment are stated at cost and depreciated on a straight-line basis over estimated useful lives of three to five years. Leasehold improvements and property under capital leases are amortized on a straight-line basis over the shorter of their estimated useful lives or the 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 results from operations.

Foreign Currency Translation

The functional currency for the Company's foreign operation in Japan is the Japanese yen. The translation from the Japanese yen to U.S. dollars is performed for balance sheet accounts using current exchange rates in effect at the balance sheet date and for revenue and expense accounts using the weighted average exchange rate during the period. Adjustments resulting from such translation are included in stockholders' equity and comprehensive loss. Gains or losses resulting from foreign currency transactions are included in the results of operations.

Segments

Effective October 1, 1998, the Company adopted Statement of Financial Accounting Standards No. 131, or SFAS 131, ''Disclosures about Segments of an Enterprise and Related Information.'' The Company operates in one disclosable segment, using one measurement of profitability for its business. The Company has sales outside the United States, which are described in Note 12. All long-lived assets are maintained in the United States.

Comprehensive Income

Comprehensive income 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 loss is presented on the statement of stockholders' equity.

Recent Accounting Pronouncements

In December 1998, AcSEC released Statement of Position 98-9 or SOP 98-9, Modification of SOP 97-2, ''Software Revenue Recognition.'' SOP 98-9 amends SOP 97-2 to require that an entity recognize revenue for multiple element arrangements by means of the ''residual method'' when (1) there is no vendor-specific objective evidence (''VSOE'') of the fair values of all the undelivered elements that are not accounted for by means of long-term contract accounting, (2) VSOE of fair value does not exist for one or more of the delivered elements, and (3) all revenue recognition criteria of SOP 97-2 (other than the requirement for VSOE of the fair value of each delivered element) are satisfied. The provisions of SOP 98-9 that extend the deferral of certain paragraphs of SOP 97-2 became effective December 15, 1998. These paragraphs of SOP 97-2 and SOP 98-9 will be effective for transactions that are entered into in fiscal years beginning after March 15, 1999. Retroactive application is prohibited. The Company is currently evaluating the impact of the requirements of SOP 98-9 and the effects, if any, on its current revenue recognition policies.

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, or SFAS 133, ''Accounting for Derivative Instruments and Hedging Activities.'' SFAS 133 establishes new standards of accounting and reporting for derivative instruments and hedging activities. SFAS 133 requires that all derivatives be recognized at fair value in the statement of financial position, and that the corresponding gains or losses be reported either in the statement of operations or as a component of comprehensive income, depending on the type of hedging relationship that exists. In July 1999, the Financial Accounting Standard Boards issued SFAS No. 137, or SFAS 137, ''Accounting for Derivative Instruments and Hedging Activities—Deferral of the Effective Date of SFAS No. 133.'' SFAS 137 deferred the effective date of SFAS 133 until the first fiscal quarter beginning after June 15, 2000. The Company does not currently hold derivative instruments or engage in hedging activities. The Company is continuing to evaluate the impact of the requirements of SFAS 133 and SFAS 137 will have on its financial statements and related disclosures.

3. Business Risks and Credit Concentration

The Company operates in the intensely competitive semiconductor industry, which has been characterized by price erosion, rapid technological change, short product life cycles, cyclical market patterns and heightened foreign and domestic competition. Significant technological changes in the industry could adversely affect operating results.

The Company markets and sells its technology to a narrow base of customers and generally does not require collateral. At September 30, 1999, two customers accounted for 67% and 17% of accounts receivable. At September 30, 1998, three customers accounted for 26%, 16% and 10% of accounts receivable.

As of September 30, 1999 and 1998, the Company's cash and cash equivalents are deposited with principally one financial institution in the form of commercial paper, money market accounts, and demand deposits.

Financial instruments that potentially subject the Company to concentrations of credit risk comprise principally cash and cash equivalents, available-for-sale securities and trade accounts receivable. The Company invests its excess cash primarily in U.S. government agency and treasury notes; corporate paper, notes, bonds and preferred stock; and municipal notes and bonds that mature within eighteen months.

RAMBUS INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

4. Marketable Securities

All marketable securities are classified as available-for-sale and are summarized as follows (in thousands):

	September 30,	
	1999	1998
Corporate notes and bonds	$23,528	$20,523
Municipal notes and bonds	29,297	18,879
United States government debt securities	24,991	16,989
Foreign debt securities	—	4,879
Certificates of deposit and commercial paper	—	1,000
	$77,816	$62,270

Available-for-sale securities are carried at fair value. Gross unrealized gains of approximately $13,000 are netted against gross unrealized losses of approximately $118,000, net of tax, and are included as a component of stockholders' equity and comprehensive income. Realized gains and losses, declines in value judged to be other than temporary, and interest on available-for-sale securities are included in interest income. All marketable securities classified as current have scheduled maturities of less than one year.

5. Property and Equipment, Net

Property and equipment, net is comprised of the following (in thousands):

	September 30,	
	1999	1998
Computer equipment	$ 7,828	$ 6,762
Computer software	5,543	4,895
Furniture and fixtures	1,423	1,170
Leasehold improvements	589	429
	15,383	13,256
Less accumulated depreciation and amortization	(11,151)	(9,267)
	$ 4,232	$ 3,989

Depreciation and amortization expense was approximately $2,985,000, $2,550,000 and $1,857,000 in the years ended September 30, 1999, 1998 and 1997.

Property and equipment under capital leases included above is comprised of (in thousands):

	September 30,	
	1999	1998
Computer equipment	$ —	$ 296
Furniture and fixtures	—	248
	—	544
Less accumulated amortization	—	(495)
	$ —	$ 49

RAMBUS INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

6. Lease Commitments

The Company leases its present office facilities in Mountain View, California, under operating lease agreements that expire through February 2005. The Company is responsible for taxes, insurance and utilities related to the leased facilities.

The Company has entered into an agreement to lease approximately 96,000 square feet of office space in a building currently under construction in Los Altos, California. The Company plans to relocate its headquarters to the new site upon completion in late calendar 2000. The lease has an initial term of ten years with options to renew for an additional ten years, subject to certain conditions. Rent obligations for the building commence upon occupancy or substantial completion of construction, whichever occurs first. As part of this lease transaction, the Company provided the lessor with a letter of credit restricting $2.5 million of its cash as collateral for certain of the Company's obligations under the lease. The cash is restricted as to withdrawal and is managed by a third party subject to certain limitations under the Company's investment policy. The letter of credit is subject to reduction to $1.2 million on the first anniversary of rent commencement and to $0.6 million on the second anniversary.

As of September 30, 1999, aggregate future minimum payments under the leases are (in thousands):

Fiscal Year:	
2000	$ 1,034
2001	3,698
2002	4,682
2003	4,822
2004	4,960
Thereafter	29,472
Total minimum lease payments.	$48,668

Rent expense was approximately $1,503,000, $1,309,000, and $987,000 for the years ended September 30, 1999, 1998 and 1997, respectively.

7. Stockholders' Equity

Preferred and Common Stock

In February 1997, the Company established a Stockholder Rights Plan pursuant to which each holder of the Company's common stock shall receive a right to purchase one-thousandth of a share of Series E Preferred Stock for $125 per right, subject to a number of conditions. Such rights are subject to adjustment in the event of a takeover or commencement of a tender offer not approved by the Board of Directors.

In May 1997, all of the then outstanding preferred shares were automatically converted to common stock concurrent with the closing of the initial public offering.

As of September 30, 1999 and 1998, the total shares held by employees that were subject to repurchase was 210,486 and 390,509, respectively.

Stock Option Plans

In March 1990, the Company adopted the 1990 Stock Plan under which 2,657,143 shares of common stock were reserved for issuance. Incentive stock options may be granted with exercise prices of no less than fair market value, and nonqualified stock options may be granted with exercise prices of no less than 85% of the fair market value of the common stock on the grant date, as determined by the Board of Directors. The

RAMBUS INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

options generally vest over a four-year period but may be exercised immediately subject to repurchase by the Company for those options that are not vested.

In May 1997, the 1990 Stock Plan was terminated and the 1997 Stock Plan was adopted. The 1997 Stock Plan authorizes the issuance of incentive stock options and nonstatutory stock options to employees and nonstatutory stock options to directors, employees or paid consultants of the Company. The Company has reserved 1,000,000 shares of common stock for issuance under the plan. The plan expires ten years after adoption, and the Board of Directors or a committee designated by the Board of Directors has the authority to determine to whom options will be granted, the number of shares, the vesting period and the exercise price (which generally cannot be less than 100% of the fair market value at the date of grant for incentive stock options). The options are exercisable at times and in increments as specified by the Board of Directors, and expire not more than ten years from date of grant.

A summary of activity under all stock option plans is as follows:

		Options Outstanding	
	Options Available for Grant	Number of Shares	Weighted Average Exercise Price Per Share
Outstanding at September 30, 1996	1,065,452	3,105,450	$ 1.00
Shares reserved	1,000,000	—	—
Options granted	(1,411,350)	1,411,350	$14.37
Options exercised	—	(2,092,428)	$ 1.22
Options canceled	20,000	(20,000)	$ 8.00
Outstanding at September 30, 1997	674,102	2,404,372	$ 8.55
Shares reserved	440,000	—	—
Shares repurchased	2,837	—	—
Options terminated under 1990 Plan	(182,425)	—	—
Options granted	(1,125,900)	1,125,900	$47.98
Options exercised	—	(435,202)	$ 2.81
Options canceled	333,586	(333,586)	$45.72
Outstanding at September 30, 1998	142,200	2,761,484	$21.10
Shares reserved	857,800	—	—
Shares repurchased	7,000	—	—
Options terminated under 1990 Plan	(51,950)	—	—
Options granted	(1,170,600)	1,170,600	$58.99
Options exercised	—	(596,605)	$ 4.76
Options canceled	273,888	(273,888)	$43.96
Outstanding at September 30, 1999	58,338	3,061,591	$36.75

RAMBUS INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table summarizes information about outstanding and exercisable options as of September 30, 1999:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 0.25—$ 5.00	629,388	6.26	$ 3.14	629,388	$3.14
$ 7.00—$42.75	656,183	7.83	19.67	260,130	10.87
$42.88—$53.00	613,020	8.58	49.21	24,574	47.03
$53.25—$59.31	933,700	9.28	57.20	17,725	55.59
$59.75—$63.13	229,300	9.31	61.24	14,418	61.17
	3,061,591	8.21	$36.75	946,235	$8.27

As of September 30, 1999, a total of 3,119,929 shares of common stock were reserved for issuance under all stock option plans. As of September 30, 1999, 1998 and 1997, options for the purchase of 490,191, 476,266 and 1,964,372 shares, respectively, were exercisable without being subject to repurchase by the Company.

Employee Stock Purchase Plan

In May 1997, the Company adopted the 1997 Employee Stock Purchase Plan (the ‘‘Purchase Plan’’) and reserved 400,000 shares of common stock for issuance under the Purchase Plan. The Purchase Plan authorizes the granting of stock purchase rights to eligible employees during two-year offering periods with exercise dates approximately every six months. Shares are purchased through employee payroll deductions at purchase prices equal to 85% of the lesser of the fair market value of the Company's common stock at either the first day of each offering period or the date of purchase. In fiscal 1999 and 1998, the Company issued 187,178 and 183,021 shares, respectively, under the Purchase Plan at an average price per share of $10.86 and $10.27, respectively.

Stock-Based Compensation

The Company applies Accounting Principles Board Opinion No. 25, ‘‘Accounting for Stock Issued to Employees,’’ and related interpretations in accounting for its stock plans. As the Company grants stock options with exercise prices equivalent to fair market value, no compensation expense has been recognized for its stock-based compensation plans. If the Company had recognized compensation expense based upon the fair value of stock option awards, including shares issued under the Purchase Plan (collectively called ‘‘options’’), at the grant date consistent with the methodology prescribed under SFAS 123, ‘‘Accounting for Stock-Based Compensation,’’ the Company's net income and net income per share would have changed to the pro forma amounts indicated below:

	Year Ended September 30,		
	1999	1998	1997
Net income as reported	$8,718	$6,788	$1,981
Net income pro forma	$5,413	$5,299	$1,386
Net income per share as reported	$ 0.37	$ 0.30	$ 0.10
Net income per share pro forma	$ 0.23	$ 0.23	$ 0.07
Net income per share—assuming dilution as reported	$ 0.35	$ 0.28	$ 0.09
Net income per share—assuming dilution pro forma	$ 0.22	$ 0.22	$ 0.06

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period.

The fair value of the options is estimated as of the grant date using the Black-Scholes option-pricing model assuming a dividend yield of 0% and the following additional weighted-average assumptions:

	Stock Option Plans			Stock Purchase Plan	
	1999	1998	1997	1999	1998
Expected stock price volatility	82%	82%	71%	82%	82%
Risk-free interest rate	5.0%	5.1%	6.2%	4.7%	5.2%
Expected life of options	4.1 years	4.4 years	4.5 years	0.5 years	0.5 years

The weighted-average fair value of stock options granted during the years ended September 30, 1999, 1998 and 1997 is $37.42, $31.28, and $8.79, respectively. The weighted-average fair value of purchase rights granted under the Purchase Plan during the years ended September 30, 1999, 1998 and 1997 is $10.70, $4.65 and $4.53, respectively. Fair value is calculated using the Black-Scholes option valuation model.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Because the Company's options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in the opinion of management, the existing models do not necessarily provide a reliable single measure of the fair value of its options.

The effects of applying SFAS 123 on the pro forma disclosures for the years ended September 30, 1999, 1998 and 1997 are not likely to be representative of the effects on pro forma disclosures in future years. Because SFAS No. 123 is applicable only to options granted by the Company subsequent to October 1, 1995 the pro forma effect will not be fully reflected until 2001.

Warrants

In November 1996, the Company entered into an agreement with Intel Corporation for the development of high-speed semiconductor memory interface technology. In January 1997, as part of this agreement, the Company issued a warrant to purchase 1,000,000 shares of common stock of the Company at a purchase price of $10.00 per share. This warrant will become exercisable only upon the achievement of certain specified performance milestones relating to shipment volumes of Rambus-based chipsets. At the time that the achievement of the milestones becomes probable, a charge will be made to the statement of operations based on the fair value of the warrant.

In June 1998, the Company issued a warrant to purchase 25,000 shares of common stock of the Company at a price of $36.64 per share to LG Semicon. This warrant, issued as part of a DRAM incentive program among the Company's licensees, was immediately exercisable and expires seven years from date of issue. The fair value of this warrant, calculated using the Black-Scholes option pricing model, was charged to expense in the Company's consolidated statements of operations for the year ended September 30, 1998.

In October 1998, the Company's Board of Directors authorized an incentive program in the form of warrants for a total of up to 400,000 shares of Rambus common stock to be issued to various Rambus DRAM partners upon the achievement of certain product qualification and volume production targets associated with the introduction of the newest generation of Rambus technology.

RAMBUS INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

These warrants, to be issued at the time the targets are met, have an exercise price of $10 per share and a life of five years. They vest and become exercisable on the same basis as the Intel warrant, which will result in a charge to the statement of operations based on the fair value of these warrants at the time the achievement of the Intel milestones becomes probable. As of September 30, 1999 a total of 30,000 of these warrants have been issued.

8. Employee Benefit Plans

The Company has a 401(k) Profit Sharing Plan (the ''Plan'') qualified under Section 401(k) of the Internal Revenue Code of 1986. Each eligible employee may elect to contribute up to 20% of the employee's annual compensation to the Plan. The Company, at the discretion of its Board of Directors, may match employee contributions to the Plan but has not done so for the years ended September 30, 1999, 1998 and 1997.

9. Income Taxes

The provision for income taxes comprises (in thousands):

	Year Ended September 30,		
	1999	1998	1997
Foreign withholding tax:			
Current	$ 369	$1,225	$1,498
Federal:			
Current	(8)	3,941	4,335
Deferred	4,115	(2,830)	(5,999)
State:			
Current	—	2,627	2,458
Deferred	644	(423)	(977)
	$5,120	$4,540	$1,315

The Company's effective tax rate on pretax income differs from the U.S. federal statutory regular tax rate as follows:

	Year Ended September 30,		
	1999	1998	1997
Expense at U.S. federal statutory rate	35.0%	35.0%	34.0%
Expense at state statutory rate	5.7	5.7	5.7
Nondeductible amortization	0.4	1.0	2.7
R&D credit	(9.7)	(6.2)	(15.1)
Change in valuation allowance	10.8	12.6	12.7
FSC benefit	—	(8.4)	—
Other	(5.2)	0.3	—
	37.0%	40.0%	40.0%

RAMBUS INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The components of the net deferred tax assets are as follows (in thousands):

	September 30,	
	1999	1998
Deferred tax assets:		
Deferred revenue	$20,198	$26,416
Depreciation and amortization expense	1,083	1,081
Other liabilities and reserves	1,006	654
Net operating loss carryover	2,701	—
Tax credits	1,974	—
Total deferred tax asset	26,962	28,151
Deferred tax liability:		
Deferred royalty cost	—	(4)
Valuation allowance	(21,491)	(17,918)
Deferred tax assets, net	$ 5,471	$10,229

The Company has established a partial valuation allowance against its deferred tax assets due to the uncertainty surrounding the realization of such assets. Management periodically evaluates the recoverability of the deferred tax assets and recognizes the tax benefit only as reassessment demonstrates they are realizable. At such time, if it is determined that it is more likely than not that the deferred tax assets are realizable, the valuation allowance will be reduced.

The Company has net operating loss carryforwards of $6.5 million and $7.9 million for federal and state tax purposes, respectively. In addition, the Company has federal and state research and experimentation tax credit carryforwards of $0.8 million. The net operating loss carryforwards and tax credits expire between 2004 and 2019.

10. Net Income Per Share

Net income per share is calculated as follows (in thousands, except per share data):

	Year Ended September 30,		
	1999	1998	1997
Net income	$ 8,718	$ 6,788	$ 1,981
Weighted average common shares outstanding	23,332	22,704	19,548
Additional dilutive common stock equivalents	1,720	1,672	1,672
Diluted shares outstanding	25,052	24,376	21,510
Net income per share—basic	$ 0.37	$ 0.30	$ 0.10
Net income per share—diluted	$ 0.35	$ 0.28	$ 0.09

11. Related Party Transactions

Chromatic Research Inc. In February 1994, the Company licensed its interface technology to Chromatic Research, Inc. (''Chromatic''), an entity in which the Company held a minority interest and had members of the board of directors in common. Under the terms of the license, Rambus received 626,053 shares of Chromatic Series B Preferred Stock (representing 5% of the then outstanding shares of Chromatic) and continuing royalties. The initial valuation of the Chromatic stock, approximately $626,000, has been fully

written down by the Company. Revenue recognized as license fees under this agreement was $70,000, $119,000 and $119,000 in the years ended September 30, 1999, 1998 and 1997, respectively. As of September 30, 1999 and 1998, the remaining balance of license fees of approximately $10,000 and $81,000, respectively, is included in deferred revenue.

In December 1997, the Company made a cash investment in Chromatic of $1,000,000 and received 142,857 shares of Series I Preferred Stock.

In fiscal 1999, Chromatic was acquired and the Company received approximately $782,000 in exchange for its Chromatic shares. The remaining book value of the Chromatic investment of approximately $218,000 was written off against previously established reserves.

12. Business Segments, Exports and Major Customers

The Company operates in a single industry segment.

Three customers accounted for 11%, 11% and 10% of revenues in the year ended September 30, 1999. One customer accounted for 22% of revenues in the year ended September 30, 1998. Two customers accounted for 29% and 10% of revenues in the year ended September 30, 1997.

The Company sells its technology to customers in the Far East, North America, and Europe. The net income and loss for all periods presented are derived primarily from the Company's North American operations, which generates revenues from the following geographic regions (in thousands):

	Year Ended September 30,		
	1999	1998	1997
United States	$ 17,404	$10,218	$ 5,076
Japan	14,010	18,556	15,118
Korea	4,908	6,663	5,520
Taiwan	4,461	618	—
Europe	2,587	1,809	301
	$ 43,370	$37,864	$26,015

RAMBUS INC. AND SUBSIDIARY

CONSOLIDATED SUPPLEMENTARY FINANCIAL DATA

	Fiscal years by quarter							
	1999				1998			
	4th	3rd	2nd	1st	4th	3rd	2nd	1st
	(in thousands, except per share amounts) (Unaudited)							
Revenues:								
Contract revenues	$10,630	$ 8,830	$ 7,945	$ 7,948	$7,394	$7,535	$7,122	$6,676
Royalties	1,675	1,802	1,914	2,626	2,269	1,625	2,529	2,714
Total revenues	12,305	10,632	9,859	10,574	9,663	9,160	9,651	9,390
Costs and expenses:								
Cost of contract revenues	3,701	3,944	2,485	2,102	2,549	2,490	2,308	1,641
Research and development	1,425	1,111	2,498	3,089	2,497	2,183	2,163	2,806
Marketing, general and administrative	3,733	3,520	3,293	2,970	2,802	2,687	2,948	2,823
Total costs and expenses	8,859	8,575	8,276	8,161	7,848	7,360	7,419	7,270
Operating income	3,446	2,057	1,583	2,413	1,815	1,800	2,232	2,120
Interest and other income, net	770	900	1,657	1,012	1,117	1,018	755	471
Income before income taxes	4,216	2,957	3,240	3,425	2,932	2,818	2,987	2,591
Provision for income taxes	1,563	956	1,231	1,370	1,186	1,123	1,195	1,036
Net income	$ 2,653	$ 2,001	$ 2,009	$ 2,055	$1,746	$1,695	$1,792	$1,555
Net income per share—diluted	$ 0.10	$ 0.08	$ 0.08	$ 0.08	$ 0.07	$ 0.07	$ 0.07	$ 0.06
Shares used in per share calculations	25,291	25,038	24,980	24,874	24,536	24,360	24,316	24,310
Stock prices:								
High	$115.25	$100.63	$109.50	$102.88	$66.25	$61.50	$54.81	$61.25
Low	$ 59.06	$ 55.00	$ 61.25	$ 50.75	$47.75	$35.75	$38.69	$40.06

REPORT OF INDEPENDENT ACCOUNTANTS ON FINANCIAL STATEMENT SCHEDULE

To the Board of Directors of
Rambus Inc. and Subsidiary

Our audits of the consolidated financial statements referred to in our report dated October 14, 1999 which appears in this Annual Report on Form 10-K of Rambus Inc. and Subsidiary also included an audit of the Financial Statement Schedule listed in Item 14(a) of this Form 10-K. In our opinion, the Financial Statement Schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

PricewaterhouseCoopers LLP

San Jose, California
October 14, 1999

RAMBUS INC. AND SUBSIDIARY

SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS

Valuation allowance for doubtful accounts

For the year ended:	Balance at beginning of period	Additions charged to costs and expenses	Charged to other accounts	Deductions	Balance at end of period
			(in thousands)		
September 30, 1997	$ 8	$ 2	—	—	$10
September 30, 1998	$10	—	—	—	$10
September 30, 1999	$10	—	—	—	$10

Valuation allowance for deferred tax asset

For the year ended:	Balance at beginning of period	Additions charged to costs and expenses	Charged to other accounts	Deductions	Balance at end of period
			(in thousands)		
September 30, 1997	$16,071	$ 418	—	—	$16,489
September 30, 1998	$16,489	$1,429	—	—	$17,918
September 30, 1999	$17,918	$3,573	—	—	$21,491

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

RAMBUS INC.

Date: December 22, 1999

By: /s/ GARY HARMON

Gary Harmon,
Sr. Vice President, Finance,
Chief Financial Officer and Secretary

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ GEOFF TATE **Geoff Tate**	Chief Executive Officer and Director (Principal Executive Officer)	December 22, 1999
/s/ DAVID MOORING **David Mooring**	President and Director	December 22, 1999
/s/ GARY HARMON **Gary Harmon**	Sr. Vice President, Finance, Chief Financial Officer and Secretary (Principal Financial and Accounting Officer)	December 22, 1999
/s/ WILLIAM DAVIDOW **William Davidow**	Chairman of the Board of Directors	December 22, 1999
/s/ BRUCE DUNLEVIE **Bruce Dunlevie**	Director	December 22, 1999
/s/ P. MICHAEL FARMWALD **P. Michael Farmwald**	Director	December 22, 1999
/s/ CHARLES GESCHKE **Charles Geschke**	Director	December 22, 1999
/s/ MARK HOROWITZ **Mark Horowitz**	Director	December 22, 1999

December 23, 1999

To our Stockholders:

Fiscal 1999 was a year of major achievements for Rambus. While not everything progressed as smoothly as we would have liked, we are pleased with the substantial progress which has been made and which continues to the present date. First and foremost, we finished development of the next generation of our revolutionary high-speed chip-to-chip memory interface technology and worked with the industry to move this technology into the market. After some delays, the Rambus-based Intel 820 chipset was introduced for use in performance desktop PCs in November. As this is being written, Rambus-based PCs and workstations using the Intel 820 and 840 chipsets have been announced by Compaq, Dell, Hewlett Packard and IBM. In addition, the new generation of Rambus technology will be used in the Sony PlayStation 2 video game system, due for introduction in 2000, and another thirty or so developments which incorporate Rambus technology into next-generation PC, graphics, networking, consumer and other electronic systems are scheduled to move into mass production next year.

Our biggest challenge now is the price and availability of Rambus DRAMs and RIMM modules. Currently there are five Rambus DRAM licensees with validated RDRAMs and thirteen module suppliers who have validated 64 different RIMM configurations ranging from 64MB to 288MB RIMM capacity. However, due to the delay in introduction of the first chipsets which enable Rambus technology in PCs, DRAM suppliers did not begin ramping RDRAM production until near the end of 1999. Largely because of the lack of volume production, these RDRAMs have a significant cost premium relative to standard DRAMs. We believe that RDRAM availability issues will ease in 2000 and that resulting learning curve improvements will reduce the cost difference between RDRAMs and standard memory.

The year ended September 30, 1999 marked our third consecutive year of increasing profits and ninth consecutive year of increasing revenues. Revenues increased 15% to $43.4 million from $37.9 million in FY 1998. Net income increased 28% to $8.7 million ($0.35 per diluted share), up from $6.8 million ($0.28 per diluted share) in FY 1998. During the year our cash balances increased to $93 million, up from $88 million at the end of fiscal 1998.

At the end of fiscal 1999 we had a total of 31 licensees for the newest generation of our technology including the top fourteen DRAM companies who collectively account for over 95% of worldwide production of DRAMs. Also at the end of the fiscal year we held 62 U.S. patents and had another 90 applications pending.

With the successful introduction of Rambus technology into the PC main memory market, we have been able to focus a portion of our activities on broader strategic issues. We have announced a roadmap for our technology which will double Rambus per-pin data rates and quadruple the bandwidth of a Rambus memory module. We also announced an increased emphasis on applying our high bandwidth memory interface technology to networking applications, and on applying Rambus' chip-to-chip interface techniques to other electronic system bottlenecks.

I am pleased to report that Dave Mooring, a nine-year veteran of Rambus, has been appointed President of the Company with responsibility for all operations. I will remain CEO and will concentrate on strategic issues. In addition, Subodh Toprani has been appointed Senior Vice President of New Ventures, with responsibility for investments and acquisitions as required to meet the Company's goals.

Since I have made some forward-looking statements in this letter, I should point out that actual results may differ materially due to risk factors discussed in detail in our Form 10-K, which forms the main part of this Annual Report.

I especially want to thank our employees for their hard work and continued dedication in a difficult but ultimately successful year.

Geoff Tate
CEO