XPERI CORP

FORM 10-Q
(Quarterly Report)

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2017

OR

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

Commission File Number: 001-37956

XPERI CORPORATION
(Exact Name of Registrant as Specified in Its Charter)

Delaware	**81-4465732**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**
3025 Orchard Parkway, San Jose, California	**95134**
(Address of Principal Executive Offices)	**(Zip Code)**

(408) 321-6000
(Registrant's Telephone Number, Including Area Code)

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

Title of each class	Name of each exchange on which registered
Common stock, par value $0.001 per share	**The NASDAQ Global Select Market**

Securities registered pursuant to Section 12(g) of the Act: None

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

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

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the exchange act. ☐

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

The number of shares outstanding of the registrant's common stock as of April 21, 2017 was 49,437,285.

XPERI CORPORATION
FORM 10-Q — QUARTERLY REPORT
FOR THE QUARTER ENDED MARCH 31, 2017
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XPERI CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except for par value)
(unaudited)

	March 31, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 60,548	$ 65,626
Short-term investments	53,138	47,379
Accounts receivable, net	22,995	15,863
Unbilled contract receivable	17,853	51,923
Other current assets	15,084	19,150
Total current assets	169,618	199,941
Restricted cash	8,469	—
Property and equipment, net	37,586	38,855
Intangible assets, net	513,325	541,879
Goodwill	386,413	382,963
Other assets	27,892	22,798
Total assets	$ 1,143,303	$ 1,186,436
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 4,239	$ 7,531
Accrued legal fees	9,004	7,505
Accrued liabilities	29,391	29,086
Current portion of long-term debt	6,000	6,000
Deferred revenue	2,827	895
Total current liabilities	51,461	51,017
Long-term deferred tax liabilities	803	32,565
Long-term debt, net	576,345	577,239
Other long-term liabilities	17,708	17,830
Commitments and contingencies (Note 13)		
Stockholders' equity:		
Preferred stock: $0.001 par value; 10,000 shares authorized and no shares issued and outstanding	—	—
Common stock: $0.001 par value; 150,000 shares authorized; 60,242 and 59,596 shares issued, respectively, and 49,418 and 48,854 shares outstanding, respectively	60	59
Additional paid-in capital	656,670	644,194
Treasury stock at cost: 10,824 and 10,742 shares of common stock at each period end, respectively	(303,365)	(300,114)
Accumulated other comprehensive loss	(110)	(148)
Retained earnings	143,731	163,794
Total stockholders' equity	496,986	507,785
Total liabilities and stockholders' equity	$ 1,143,303	$ 1,186,436

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

XPERI CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)
(unaudited)

	Three Months Ended	
	March 31, 2017	March 31, 2016
Revenue:		
Royalty and license fees	$ 67,255	$ 59,977
Total revenue	67,255	59,977
Operating expenses:		
Cost of revenue	1,400	87
Research, development and other related costs	26,012	10,069
Selling, general and administrative	41,205	11,094
Amortization expense	28,555	6,022
Litigation expense	9,978	6,550
Total operating expenses	107,150	33,822
Operating income (loss)	(39,895)	26,155
Interest expense	(6,459)	—
Other income and expense, net	46	807
Income (loss) before taxes	(46,308)	26,962
Provision for (benefit from) income taxes	(35,279)	8,872
Net income (loss)	$ (11,029)	$ 18,090
Basic and diluted net income (loss) per share:		
Basic	$ (0.22)	$ 0.36
Diluted	$ (0.22)	$ 0.36
Cash dividends declared per share	$ 0.20	$ 0.20
Weighted average number of shares used in per share calculations-basic	49,139	49,998
Weighted average number of shares used in per share calculations-diluted	49,139	50,566

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

XPERI CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in thousands)
(unaudited)

	Three Months Ended	
	March 31, 2017	**March 31, 2016**
Net income (loss)	$ (11,029)	$ 18,090
Other comprehensive income:		
Net unrealized gains on available-for-sale securities, net of tax	38	1,463
Other comprehensive income	38	1,463
Comprehensive income (loss)	$ (10,991)	$ 19,553

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

XPERI CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Three Months Ended	
	March 31, 2017	March 31, 2016
Cash flows from operating activities:		
Net income (loss)	$ (11,029)	$ 18,090
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization of property and equipment	1,834	385
Amortization of intangible assets	28,554	6,022
Stock-based compensation expense	7,081	3,640
Deferred income tax and other, net	(37,950)	2,791
Amortization of premium or discount on investments	87	1,581
Changes in operating assets and liabilities:		
Accounts receivable, net	(7,132)	(1,459)
Unbilled contract receivable, net	30,620	—
Other assets	6,575	2,162
Accounts payable	(3,292)	(245)
Accrued legal fees	1,499	3,542
Accrued and other liabilities	183	(3,241)
Deferred revenue	1,932	(3,120)
Net cash from operating activities	18,962	30,148
Cash flows from investing activities:		
Purchases of property and equipment	(565)	(2,044)
Purchases of short-term available-for-sale investments	(11,493)	(30,467)
Proceeds from sales of short-term and long-term investments	1,035	15,291
Proceeds from maturities of short-term and long-term investments	4,650	44,191
Net cash from investing activities	(6,373)	26,971
Cash flows from financing activities:		
Dividend paid	(9,843)	(9,986)
Repayment of debt	(1,500)	—
Proceeds from exercise of stock options	4,241	798
Proceeds from employee stock purchase program	1,155	1,081
Repurchase of common stock	(3,251)	(38,176)
Net cash from financing activities	(9,198)	(46,283)
Net increase in cash, cash equivalents and restricted cash	3,391	10,836
Cash, cash equivalents and restricted cash at beginning of period	65,626	22,599
Cash, cash equivalents and restricted cash at end of period	$ 69,017	$ 33,435
Supplemental disclosure of cash flow information:		
Interest paid	$ 8,100	$ —

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

XPERI CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

NOTE 1 – THE COMPANY AND BASIS OF PRESENTATION

Xperi Corporation (the "Company") completed the acquisition of DTS, Inc. ("DTS"), a publicly-traded developer of sound-based technologies, in December 2016. At the time of the acquisition, Tessera Technologies, Inc. and DTS were combined under the newly-formed Tessera Holding Corporation and shares of the combined company traded on the NASDAQ market under Tessera’s ticker symbol TSRA. During the first quarter of 2017, the Company introduced its new corporate name, Xperi Corporation, launched a new corporate logo, and began trading under the new stock ticker, XPER.

Xperi Corporation licenses its innovative technologies and inventions to global electronic device and manufacturing companies which, in turn, integrate the technologies into their own enterprise, consumer electronics and semiconductor products. The Company's technologies and solutions are widely proliferated. The Company's audio technologies have shipped in billions of devices for the home, mobile and automotive markets. The Company's imaging technologies are embedded in more than 25% of smartphones on the market today. The Company's semiconductor packaging and interconnect technologies have been licensed to more than 100 customers and have shipped in over 100 billion semiconductor chips. Key end-markets enabled by the Company's technology solutions include mobile, home, datacenter, and automotive.

The accompanying interim unaudited condensed consolidated financial statements as of March 31, 2017 and 2016, and for the three months then ended, have been prepared by the Company in accordance with generally accepted accounting principles (“GAAP”) in the United States (“U.S.”) for interim financial information. The amounts as of December 31, 2016 have been derived from the Company’s annual audited financial statements. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted in accordance with such rules and regulations. In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments necessary (consisting of normal recurring adjustments) to state fairly the financial position of the Company and its results of operations and cash flows as of and for the periods presented. These financial statements should be read in conjunction with the annual audited financial statements and notes thereto as of and for the year ended December 31, 2016, included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016, filed on February 27, 2017 (the “Form 10-K”).

The results of operations for the three months ended March 31, 2017 are not necessarily indicative of the results that may be expected for the full year ended December 31, 2017 or any future period and the Company makes no representations related thereto.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

There have been no significant changes in the Company’s significant accounting policies during the three months ended March 31, 2017, as compared to the significant accounting policies described in the Form 10-K.

Recently Adopted Accounting Pronouncements

In January 2017, the FASB issued ASU No. 2017-01, "Classifying the Definition of a Business." This ASU clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. For public entities, this ASU is effective for annual reporting periods beginning after December 15, 2017, including interim periods within those periods. Early adoption is permitted for transactions for which the acquisition date occurs before the effective date of the ASU only when the transaction has not been reported in financial statements that have been issued. The Company chose to early adopt this standard effective for the year ended December 31, 2016.

In November 2016, the FASB issued ASU No. 2016-18, "Statement of Cash Flows - Restricted Cash." This ASU provides guidance on the classification and presentation of changes in restricted cash and cash equivalents in the statement of cash flows. The Company chose to early adopt this standard effective January 1, 2017. The Company had an $8.5 million increase in restricted cash during the three months ended March 31, 2017 which would have been shown as a use of cash and cash equivalents under previous guidance.

In March 2016, the FASB issued ASU No. 2016-09, Compensation - Stock Compensation (Topic 718) (“ASU 2016-09”). ASU 2016-09 identifies areas for simplification involving several aspects of accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, an option to recognize gross stock compensation expense with actual forfeitures recognized as they occur, as well as certain classifications on the statement of cash flows. The Company adopted this update effective January 1, 2017. The cumulative impact of this update was an adjustment of $0.8 million to retained earnings.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09"), which provides guidance for revenue recognition. ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets and supersedes the revenue recognition requirements in Topic 605, "Revenue Recognition," and most industry-specific guidance. This ASU also supersedes some cost guidance included in Subtopic 605-35, "Revenue Recognition-Construction-Type and Production-Type Contracts." The core principle of ASU 2014-09 is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which a company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under today's guidance, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. The FASB has further clarified this new guidance for revenue recognition by issuing ASU No. 2016-08 (principal versus agent considerations), ASU No. 2016-10 (identifying performance obligations and licensing), ASU No. 2016-12 (narrow-scope improvements and practical expedients), and ASU No. 2016-20 (technical corrections and improvements to Topic 606). The new standard is effective for the Company beginning January 1, 2018. The Company expects the standard to have a material impact on the timing of revenue recognition and expects that the standard will cause volatility in its quarterly revenue trends. Under the new standard, the current practice of many licensing companies of reporting revenue from per-unit royalty based arrangements one quarter in arrears would no longer be accepted and instead the Company will be expected to estimate royalty-based revenue. The Company also expects the standard to have a significant impact on the timing of revenue recognition associated with its fixed fee and minimum guarantee arrangements, as a majority of such revenue is expected to be recognized at the initiation of the license term. The Company currently expects to adopt this standard using the modified retrospective method, under which the Company would record a cumulative-effect adjustment to the opening balance of retained earnings on January 1, 2018 determined on the basis of the impact of the new standard on contracts that are not completed as of January 1, 2018. The Company is currently evaluating and finalizing the full impact of this new standard on its financial statements.

In February 2016, the FASB issued ASU 2016-02 "Leases (Topic 842)." The core principle of Topic 842 is that a lessee should recognize the assets and liabilities that arise from leases while the accounting by a lessor is largely unchanged from that applied under previous GAAP. The amendments in this update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently evaluating the impact of the adoption of this new standard.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. This ASU addresses the classification of certain specific cash flow issues including debt prepayment or extinguishment costs, settlement of certain debt instruments, contingent consideration payments made after a business combination, proceeds from the settlement of certain insurance claims and distributions received from equity method investees. This ASU is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years, with early adoption permitted. An entity that elects early adoption must adopt all of the amendments in the same period. The Company is currently evaluating the effect this standard will have on its consolidated statement of cash flows.

In October 2016, the FASB issued ASU No. 2016-16, "Intra-Entity Transfers of Assets Other Than Inventory." This ASU requires entities to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. For public entities, this ASU is effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods. Early adoption is permitted for all entities as of the beginning of an annual reporting period for which financial statements have not been issued. The Company is evaluating the impact of adoption of this standard on its consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04 to simplify the measurement of goodwill by eliminating the Step 2 impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. The new guidance requires an entity to compare the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. The new guidance becomes effective for goodwill impairment tests in fiscal years beginning after December 15, 2019, though early adoption is permitted.

NOTE 3 – COMPOSITION OF CERTAIN FINANCIAL STATEMENT CAPTIONS

Other current assets consisted of the following (in thousands):

	March 31, 2017	December 31, 2016
Prepaid income taxes	$ 3,406	$ 6,645
Income tax receivable	3,172	3,109
Interest receivable	410	310
Other	8,096	9,086
	$ 15,084	$ 19,150

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

	March 31, 2017	December 31, 2016
Equipment, furniture and other	$ 28,585	$ 28,071
Building and improvements	18,153	18,153
Land	5,300	5,300
Leasehold improvements	6,381	6,346
	58,419	57,870
Less: Accumulated depreciation and amortization	(20,833)	(19,015)
	$ 37,586	$ 38,855

Depreciation and amortization expense for the three months ended March 31, 2017 and 2016 amounted to $1.8 million and $0.4 million , respectively.

Accrued liabilities consisted of the following (in thousands):

	March 31, 2017	December 31, 2016
Employee compensation and benefits	$ 18,421	$ 18,584
Accrued interest	—	2,200
Other	10,970	8,302
	$ 29,391	$ 29,086

Accumulated other comprehensive income (loss) consisted of the following (in thousands):

	March 31, 2017	December 31, 2016
Unrealized loss on available-for-sale securities, net of tax	$ (110)	$ (148)
	$ (110)	$ (148)

NOTE 4 – FINANCIAL INSTRUMENTS

The following is a summary of marketable securities at March 31, 2017 and December 31, 2016 (in thousands):

	March 31, 2017			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Values
Available-for-sale securities				
Corporate bonds and notes	$ 43,517	$ 11	$ (83)	$ 43,445
Commercial paper	3,733	—	(2)	3,731
Treasury and agency notes and bills	6,000	—	(38)	5,962
Money market funds	2,121	—	—	2,121
Total available-for-sale securities	$ 55,371	$ 11	$ (123)	$ 55,259
Reported in:				
Cash and cash equivalents				$ 2,121
Short-term investments				53,138
Total marketable securities				$ 55,259

	December 31, 2016			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Values
Available-for-sale securities				
Corporate bonds and notes	$ 36,590	$ 7	$ (95)	$ 36,502
Commercial paper	5,220	—	(4)	5,216
Treasury and agency notes and bills	6,029	—	(57)	5,972
Money market funds	14,146	—	—	14,146
Total available-for-sale securities	$ 61,985	$ 7	$ (156)	$ 61,836
Reported in:				
Cash and cash equivalents				$ 14,457
Short-term investments				47,379
Total marketable securities				$ 61,836

At March 31, 2017 and December 31, 2016 , the Company had $113.7 million and $113.0 million , respectively, in cash, cash equivalents and short-term investments. These balances include $58.4 million and $51.2 million in cash held in operating accounts not included in the tables above at March 31, 2017 and December 31, 2016 , respectively. The Company has $8.5 million in restricted cash which is required to secure bonds against potential damages Broadcom may face as a result of the Company enforcing the injunction granted by the court in Germany. If the injunction is reversed or vacated, all or a portion of the restricted cash could be at risk. The Company currently estimates this cash will be restricted for longer than 12 months. See Part II, Item 1 *"legal Proceedings"* for additional information.

The gross realized gains and losses on sales of marketable securities were not significant during the three months ended March 31, 2017 and 2016 .

Unrealized losses (net of unrealized gains) were $0.1 million , net of tax, as of March 31, 2017 and March 31, 2016. These amounts were related to temporary fluctuations in value of the remaining available-for-sale securities and were due primarily to changes in interest rates and market and credit conditions of the underlying securities. Certain investments with a temporary decline in value are not considered to be other-than-temporarily impaired as of March 31, 2017 because the Company has the ability to hold these investments to allow for recovery, does not anticipate having to sell these securities with unrealized losses and continues to receive interest at the maximum contractual rate. For the three months ended March 31, 2017 and 2016 , respectively, the Company did not record any impairment charges related to its marketable securities.

The following table summarizes the fair value and gross unrealized losses related to individual available-for-sale securities at March 31, 2017 and December 31, 2016, which have been in a continuous unrealized loss position, aggregated by investment category and length of time (in thousands):

March 31, 2017	Less Than 12 Months				12 Months or More				Total			
	Fair Value		Gross Unrealized Losses		Fair Value		Gross Unrealized Losses		Fair Value		Gross Unrealized Losses	
Corporate bonds and notes	$	27,962	$	(62)	$	3,811	$	(21)	$	31,773	$	(83)
Treasury and agency notes and bills		5,962		(38)		—		—		5,962		(38)
Commercial paper		3,731		(2)		—		—		3,731		(2)
Total	$	37,655	$	(102)	$	3,811	$	(21)	$	41,466	$	(123)

December 31, 2016	Less Than 12 Months				12 Months or More				Total			
	Fair Value		Gross Unrealized Losses		Fair Value		Gross Unrealized Losses		Fair Value		Gross Unrealized Losses	
Corporate bonds and notes	$	14,678	$	(44)	$	13,230	$	(51)	$	27,908	$	(95)
Commercial paper		5,216		(4)		—		—		5,216		(4)
Treasury and agency notes and bills		5,972		(57)		—		—		5,972		(57)
Total	$	25,866	$	(105)	$	13,230	$	(51)	$	39,096	$	(156)

The estimated fair value of marketable securities by contractual maturity at March 31, 2017 is shown below (in thousands). Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations without call or prepayment penalties.

	Estimated Fair Value	
Due in one year or less	$	21,936
Due in one to two years		15,860
Due in two to three years		17,463
Total	$	55,259

NOTE 5 – FAIR VALUE

The Company follows the authoritative guidance for fair value measurement and the fair value option for financial assets and financial liabilities. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability, or an exit price, in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The established fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. There are three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets.

Level 2 Observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

When applying fair value principles in the valuation of assets, we are required to maximize the use of quoted market prices and minimize the use of unobservable inputs. We use the fair value of our Level 1 and calculate Level 2 instruments based on the exchange traded price of similar or identical instruments, where available, or based on other observable inputs. There were no significant transfers into or out of Level 1 or Level 2 that occurred between December 31, 2016 and March 31, 2017.

The following is a list of the Company’s assets required to be measured at fair value on a recurring basis and where they were classified within the hierarchy as of March 31, 2017 (in thousands):

	Fair Value		Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)
Assets							
Marketable securities							
Money market funds (1)	$	2,121	$	2,121	$	—	$	—
Corporate bonds and notes (2)		43,445		—		43,445		—
Treasury and agency notes and bills (2)		5,962		—		5,962		—
Commercial paper (2)		3,731		—		3,731		—
Total Assets	$	55,259	$	2,121	$	53,138	$	—

The following footnotes indicate where the noted items were recorded in the Condensed Consolidated Balance Sheet at March 31, 2017 :

(1) Reported as cash and cash equivalents.
(2) Reported as short-term investments.

The Company also has outstanding debt at March 31, 2017 and December 31, 2016 that is considered a level 2 liability and is measured at fair value on a recurring basis. See Note 8 " *Debt* " for additional information. At March 31, 2017 and December 31, 2016, the fair value of our debt is not materially different than the outstanding principal amount.

The following is a list of the Company's assets required to be measured at fair value on a recurring basis and where they were classified within the hierarchy as of December 31, 2016 (in thousands):

	Fair Value		Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)
Assets							
Marketable securities							
Money market funds (1)	$	14,146	$	14,146	$	—	$	—
Corporate bonds and notes (2)		36,502		—		36,502		—
Treasury and agency notes and bills (2)		5,972		—		5,972		—
Commercial paper (2)		5,216		—		5,216		—
Total Assets	$	61,836	$	14,146	$	47,690	$	—

The following footnotes indicate where the noted items were recorded in the Condensed Consolidated Balance Sheet at December 31, 2016 :

(1) Reported as cash and cash equivalents.
(2) Reported as short-term investments.

NOTE 6 - BUSINESS COMBINATION

On December 1, 2016, the Company completed its acquisition of DTS, pursuant to the Agreement and Plan of Merger, dated as of September 19, 2016. The acquisition was accounted for under the acquisition method of accounting.

Certain amounts of assets and liabilities recorded in the preliminary purchase price allocation are provisional and are subject to certain working capital and other adjustments, which could potentially be material. The Company has not yet obtained all available information necessary to finalize the measurement of all assets and liabilities acquired. In the three months ended March 31, 2017, based on additional information, the Company revised its estimates of unbilled contracts receivable relating to products licensed by DTS prior to the acquisition date of December 1, 2016 which resulted in a $3.5 million , net of tax, increase to goodwill.

The Company is still waiting for additional information to finalize the measurement of unbilled contracts receivable. The measurement of acquired deferred income taxes has not been finalized as the Company is currently in the process of obtaining the necessary information to complete the analysis related to certain acquired tax attributes. In addition, the Company is waiting on information related to certain pre-acquisition income tax filing positions of DTS that will assist the Company in finalizing the amounts to record for the acquired deferred income taxes. The Company is also waiting on information to assist the Company in finalizing the recording of any assumed uncertain income tax positions. The final allocation of the purchase price is expected to be completed as soon as practicable, but no later than one year from the date of acquisition.

NOTE 7 – GOODWILL AND IDENTIFIED INTANGIBLE ASSETS

The changes to the carrying value of goodwill from January 1, 2017 through March 31, 2017 are reflected below (in thousands):

December 31, 2016	$ 382,963	
Purchase price adjustment related to the acquisition of DTS (1)	3,450	
March 31, 2017	$ 386,413	(2)

(1) This adjustment related to the measurement of unbilled contract receivables which were estimated at the time of acquisition, see Note 6 - *"Business Combinations."*

(2) Of this amount, approximately $378.7 million is allocated to our Product Licensing reporting unit and approximately $7.7 million is allocated to our Semiconductor and IP Licensing reporting unit.

Identified intangible assets consisted of the following (in thousands):

		March 31, 2017			December 31, 2016		
	Average Life (Years)	Gross Assets	Accumulated Amortization	Net	Gross Assets	Accumulated Amortization	Net
Acquired patents / core technology	3-15	$ 140,744	$ (101,365)	$ 39,379	$ 140,744	$ (96,896)	$ 43,848
Existing technology	5-10	203,442	(35,850)	167,592	203,442	(27,315)	176,127
Customer contracts and related relationships	3-9	291,769	(27,761)	264,008	291,769	(14,011)	277,758
Trademarks/trade name	4-10	40,083	(2,381)	37,702	40,083	(1,138)	38,945
Non-competition agreements	1	2,231	(743)	1,488	2,231	(186)	2,045
Total amortizable intangible assets		678,269	(168,100)	510,169	678,269	(139,546)	538,723
In-process research and development		3,156	—	3,156	3,156	—	3,156
Total intangible assets		$ 681,425	$ (168,100)	$ 513,325	$ 681,425	$ (139,546)	$ 541,879

Amortization expense for the three months ended March 31, 2017 and 2016 amounted to $28.6 million and $6.0 million , respectively.

As of March 31, 2017 , the estimated future amortization expense of intangible assets is as follows (in thousands):

2017 (remaining 9 months)	$	83,258
2018		107,396
2019		98,310
2020		86,595
2021		78,933
Thereafter		55,677
	$	510,169

NOTE 8 - DEBT

On December 1, 2016, in connection with the consummation of the acquisition of DTS, the Company entered into a Credit Agreement (the “Credit Agreement”) by and among the Company, Royal Bank of Canada, as administrative agent and collateral agent, and the lenders party thereto.

The Credit Agreement provides for a $600 million seven-year term B loan facility (the “Term B Loan Facility”). The interest rates applicable to loans outstanding under the Credit Agreement with respect to the Term B Loan Facility are (i) until the delivery of financial statements for the first full fiscal quarter ending after December 1, 2016 equal to, at the Company's option, either a base rate plus a margin of 2.25% per annum or LIBOR plus a margin of 3.25% per annum (the “Effective Date Margin”) and (ii) thereafter, (x) the Effective Date Margin or (y) so long as the ratio of consolidated indebtedness of the Company (minus all unrestricted cash and cash equivalents) to consolidated EBITDA (subject to other customary adjustments) is equal to or less than 1.50 to 1.00 , equal to, at the Company's option either a base rate plus a margin of 2.00% per annum or LIBOR plus a margin of 3.00% per annum. Commencing March 31, 2017, the Term B Loan Facility will amortize in equal quarterly installments in aggregate quarterly amounts equal to 0.25% of the original principal amount of the Term B Loan Facility, with the balance payable on the maturity date of the Term B Loan Facility (in each case subject to adjustment for prepayments). The Term B Loan Facility matures on November 30, 2023 .

Upon the closing of the Credit Agreement, the Company borrowed $600 million under the Term B Loan facility. Net proceeds were used on December 1, 2016, together with cash and cash equivalents, to finance the acquisition of DTS.

The obligations under the Credit Agreement are guaranteed by the Company pursuant to the Guaranty (the “Guaranty”), dated December 1, 2016, among the Company, Royal Bank of Canada, as administrative agent, and the other subsidiary guarantors party thereto. The obligations under the Credit Agreement are guaranteed by substantially all of the assets of the Company pursuant to the Security Agreement (the “Security Agreement”), dated December 1, 2016, among the Company, Royal Bank of Canada, as collateral agent, and the other pledgors party thereto.

The Credit Agreement contains customary events of default, upon the occurrence of which, after any applicable grace period, the lenders will have the ability to accelerate all outstanding loans thereunder.

The Credit Agreement contains customary representations and warranties and affirmative and negative covenants that, among other things, restrict the ability of the Company to create or incur certain liens, incur or guarantee additional indebtedness, merge or consolidate with other companies, transfer or sell assets and make restricted payments. These covenants are subject to a number of limitations and exceptions set forth in the Credit Agreement. The Company was in compliance with all requirements as of March 31, 2017.

At March 31, 2017, $598.5 million was outstanding with an interest rate, including the amortization of debt issuance costs, of 4.4% . Interest is payable quarterly. There were also $16.2 million of unamortized debt issuance costs recorded as a reduction of the long-term portion of the debt. Interest expense for the three months ended March 31, 2017 was $6.5 million which includes $0.6 million in amortized debt issuance costs. There was a debt principal payment of $1.5 million during the quarter. There were no interest costs in the three months ended March 31, 2016 since the debt was incurred in December 2016.

As of March 31, 2017, future minimum principal payments for long-term debt, including the current portion, are summarized as follows (in thousands):

2017 (remaining nine months)	$	4,500
2018		6,000
2019		6,000
2020		6,000
2021		6,000
Thereafter		570,000
Total	$	598,500

Additional payments of debt principal must be made in the event of certain working capital conditions as outlined in the Credit Agreement. There are no penalties for these payments.

NOTE 9 – NET INCOME (LOSS) PER SHARE

The Company has a share-based compensation plan under which employees may be granted share-based awards including shares of restricted stock and restricted stock units ("RSUs"). Non-forfeitable dividends are paid on unvested shares of restricted stock. No dividends are accrued or paid on unvested RSUs. As such, shares of restricted stock are considered participating securities under the two-class method of calculating earnings per share. The two-class method of calculating earnings per share did not have a material impact on the Company's earnings per share calculation for the three months ended March 31, 2017 and 2016.

The following table sets forth the computation of basic and diluted shares (in thousands):

	Three Months Ended	
	March 31, 2017	**March 31, 2016**
Denominator:		
Weighted average common shares outstanding	49,144	50,020
Less: shares of restricted stock subject to repurchase	(5)	(22)
Total common shares-basic	49,139	49,998
Effect of dilutive securities:		
Options	—	207
Restricted stock awards and units	—	361
Total common shares-diluted	49,139	50,566

Basic net income (loss) per share is computed using the weighted average number of common shares outstanding during the period, excluding any unvested restricted stock awards that are subject to repurchase. Diluted net income (loss) per share is computed using the treasury stock method to calculate the weighted average number of common shares and, if dilutive, potential common shares outstanding during the period. Potential dilutive common shares include unvested restricted stock awards and units and incremental common shares issuable upon the exercise of stock options, less shares from assumed proceeds. The assumed proceeds calculation includes actual proceeds to be received from the employee upon exercise and the average unrecognized stock compensation cost during the period.

For the three months ended March 31, 2017 and 2016, in the calculation of net income per share, 0.7 million and 0.3 million shares, respectively, subject to stock options and restricted stock awards and units were excluded from the computation of diluted net income per share as they were anti-dilutive.

NOTE 10 – STOCKHOLDERS' EQUITY

Stock Repurchase Programs

In August 2007, the Company's Board of Directors ("the Board") authorized a plan to repurchase the Company's outstanding shares of common stock dependent on market conditions, share price and other factors. There were no repurchases during the three months ended March 31, 2017 . The Company has repurchased a total of approximately 10,488,000 shares of common stock, since inception of the plan, at an average price of $27.83 per share for a total cost of $291.8 million . The shares repurchased are recorded as treasury stock and are accounted for under the cost method. No expiration date has been specified for this plan. As of March 31, 2017 , the total remaining amount available for repurchase was $158.2 million . The Company plans to continue to execute authorized repurchases from time to time under the plan.

Stock Option Plans

The 2003 Plan

As of March 31, 2017 , there were approximately 2.2 million shares reserved for future grant under the Company's 2003 Equity Incentive Plan (the "2003 Plan").

A summary of the stock option activity is presented below (in thousands, except per share amounts):

	Options Outstanding	
	Number of Shares Subject to Options	Weighted Average Exercise Price Per Share
Balance at December 31, 2016	1,332	$24.41
Options granted	—	—
Options exercised	(150)	$23.54
Options canceled / forfeited / expired	(29)	$37.39
Balance at March 31, 2017	1,153	$24.19

Restricted Stock Awards and Units

Information with respect to outstanding restricted stock awards and units as of March 31, 2017 is as follows (in thousands, except per share amounts):

	Restricted Stock and Restricted Stock Units			
	Number of Shares Subject to Time-based Vesting	Number of Shares Subject to Performance-based Vesting	Total Number of Shares	Weighted Average Grant Date Fair Value Per Share
Balance at December 31, 2016	1,696	384	2,080	$ 33.91
Awards and units granted	789	145	934	$ 36.29
Awards and units vested / earned	(385)	(72)	(457)	$ 35.03
Awards and units canceled / forfeited	(56)	(88)	(144)	$ 28.13
Balance at March 31, 2017	2,044	369	2,413	$ 34.97

Performance Awards and Units

Performance awards and units may be granted to employees or consultants based upon, among other things, the contributions, responsibilities and other compensation of the particular employee or consultant. The value and the vesting of such performance awards and units are generally linked to one or more performance goals or other specific performance goals determined by the Company, in each case on a specified date or dates or over any period or periods determined by the Company, and range from zero to 100 percent of the grant.

Employee Stock Purchase Plans

As of March 31, 2017 , there were approximately 363,002 shares reserved for grant under the Company's 2003 Employee Stock Purchase Plan (the "ESPP") and the International Employee Stock Purchase Plan (the "International ESPP"), collectively.

NOTE 11 – STOCK-BASED COMPENSATION EXPENSE

The effect of recording stock-based compensation expense for the three months ended March 31, 2017 and 2016 is as follows (in thousands):

	Three Months Ended	
	March 31, 2017	March 31, 2016
Research, development and other related costs	$ 2,870	$ 1,384
Selling, general and administrative	4,211	2,256
Total stock-based compensation expense	7,081	3,640
Tax effect on stock-based compensation expense	(2,019)	(1,010)
Net effect on net income (loss)	$ 5,062	$ 2,630

Stock-based compensation expense categorized by various equity components for the three months ended March 31, 2017 and 2016 is summarized in the table below (in thousands):

	Three Months Ended	
	March 31, 2017	March 31, 2016
Employee stock options	$ 645	$ 509
Restricted stock awards and units	6,006	2,932
Employee stock purchase plan	430	199
Total stock-based compensation expense	$ 7,081	$ 3,640

The following assumptions were used to value the options granted:

	Three Months Ended	
	March 31, 2017	March 31, 2016
Expected life (in years)	*	*
Risk-free interest rate	*	*
Dividend yield	*	*
Expected volatility	*	*

* There were no options granted in the three months ended March 31, 2017 and 2016.

ESPP grants occur in February and August. The following assumptions were used to value the ESPP shares for these grants:

	February 2017	February 2016
Expected life (years)	2.0	2.0
Risk-free interest rate	1.2%	0.8%
Dividend yield	2.0%	2.4%
Expected volatility	28.3%	30.0%

NOTE 12 – INCOME TAXES

For the three months ended March 31, 2017, the Company recorded an income tax benefit of $35.3 million on a pre-tax loss of $46.3 million which resulted in an effective tax rate of 76.2%. The effective tax rate was primarily related to losses in foreign operations, as the Company’s tax rates on those operations are generally lower than the U.S. statutory rate. For the three months ended March 31, 2016, the Company recorded an income tax provision of $8.9 million on pre-tax income of $27.0 million which resulted in an effective tax rate of 32.9 %. This rate was primarily related to foreign withholding taxes and tax liability generated from U.S. and foreign operations. The Company's provision for income taxes is based on its worldwide estimated annualized effective tax rate, except for jurisdictions for which a loss is expected for the year and no benefit can be realized for those losses, and the tax effect of discrete items occurring during the period. The tax for jurisdictions for which a loss is expected and no benefit can be realized for the year is based on actual taxes and tax reserves for the quarter. The income tax benefit for the three months ended March 31, 2017 as compared to the income tax provision during the same period in the prior year is largely attributable to the quarterly loss generated from U.S. and foreign operations.

As of March 31, 2017, unrecognized tax benefits were $30.1 million (which is included in long-term deferred tax and other long-term liabilities on the Condensed Consolidated Balance Sheet), of which $23.8 million would affect the effective tax rate if recognized. As of March 31, 2016, unrecognized tax benefits were $3.2 million (which is included in long-term deferred tax and other long-term liabilities on the Condensed Consolidated Balance Sheet), of which $2.4 million would affect the effective tax rate if recognized. At this time, the Company is unable to reasonably estimate the timing of the long-term payments or the amount by which the liability will increase or decrease over time. The increase in unrecognized tax benefits as compared to the same period in the prior year is largely due to the acquisition of DTS in 2016.

It is the Company's policy to classify accrued interest and penalties related to unrecognized tax benefits in the provision for income taxes. For the three months ended March 31, 2017 and March 31, 2016, the Company recognized an insignificant amount of interest and penalties related to unrecognized tax benefits. As of March 31, 2017 and December 31, 2016, the Company had accrued $0.5 million and $0.5 million , respectively, of interest and penalties related to unrecognized tax benefits.

At March 31, 2017, the Company's 2011 through 2016 tax years were open and subject to potential examination in one or more jurisdictions. In addition, in the U.S., any net operating losses or credits that were generated in prior years but not yet fully utilized in a year that is closed under the statute of limitations may also be subject to examination. The Company is currently under examination by the Internal Revenue Service for tax year 2014. The Company is currently under examination in California for the 2011 and 2012 tax years. We cannot estimate the financial outcome of both examinations. The Company is not currently under any foreign income tax examination.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

Lease Commitments

The Company leases office and research facilities and office equipment under operating leases which expire at various dates through 2029. Under lease agreements that contain escalating rent provisions, lease expense is recorded on a straight-line basis over the lease term. There were no material changes to our future minimum lease payments during the three months ended March 31, 2017. Rent expense for the three months ended March 31, 2017 and 2016 amounted to $1.5 million and $0.5 million , respectively, in each period.

Contingencies

At each reporting period, the Company evaluates whether or not a potential loss amount or a potential range of loss is probable and reasonably estimable under the provisions of the authoritative guidance that addresses accounting for contingencies. The Company is currently unable to predict the final outcome of lawsuits to which it is a party and therefore cannot determine the likelihood of loss nor estimate a range of possible loss. An adverse decision in any of these proceedings could significantly harm the Company’s business and consolidated financial position, results of operations or cash flows.

Tessera, Inc. v. Toshiba Corporation, Civil Action No. 5:15-cv-02543-BLF (N.D. Cal.)

On May 12, 2015, Tessera, Inc. filed a complaint against Toshiba Corporation (“Toshiba”) in California Superior Court. Tessera, Inc.’s complaint alleges causes of action for breach of contract, breach of the implied covenant of good faith and fair dealing, and declaratory relief, generally alleging that Toshiba underpaid royalties and failed to cooperate with audits conducted pursuant to the parties’ license agreement.

On June 8, 2015, Toshiba removed the action to the U.S. District Court for the Northern District of California. On June 18, 2015, Toshiba filed its answer, affirmative defenses, and counterclaims to Tessera, Inc.’s complaint. Toshiba alleges counterclaims for declaratory judgment and breach of the implied warranty of good faith and fair dealing. The counterclaims seek, among other things, judicial determinations about the interpretation of the parties’ agreement, termination of the agreement, an accounting of the amount of alleged overpayments by Toshiba, restitution, and damages. On July 10, 2015, Tessera, Inc. filed its answer and affirmative defenses to Toshiba’s counterclaims. On March 17, 2016, Tessera, Inc. filed an amended complaint adding a claim for declaratory relief regarding a February 12, 2016 letter sent by Toshiba to Tessera, Inc.

purporting to terminate the parties' license agreement. On March 18, 2016, Toshiba filed its amended answer, affirmative defenses, and counterclaims. On April 4, 2016, Tessera, Inc. filed an answer to Toshiba's amended counterclaims.

An initial summary judgment hearing on contract issues took place on September 22, 2016. On November 7, 2016, the Court entered an order granting Toshiba's motion regarding the definition of "TCC," and denying summary judgment on the other issues raised by the parties' cross-motions. On December 6, 2016, Tessera, Inc. filed a motion pursuant to Federal Rule of Civil Procedure 54(b) seeking authorization to appeal the order and for a stay. On March 6, 2017, the Court granted the Rule 54(b) motion. The Court subsequently vacated the trial date and stayed the remainder of the district court proceedings.

On April 4, 2017, Tessera, Inc. filed a notice of appeal with the U.S. District Court for the Northern District of California. On April 5, 2017, the U.S. Court of Appeals for the Ninth Circuit issued its Time Schedule Order. Tessera, Inc.'s opening brief is due July 13, 2017, and Toshiba's answering brief is due August 14, 2017. A hearing for oral argument has not yet been scheduled.

Other Litigation Matters

The Company and its subsidiaries are involved in litigation matters and claims in the normal course of business. In the past, the Company and its subsidiaries have litigated to enforce their respective patents and other intellectual property rights, to enforce the terms of license agreements, to protect trade secrets, to determine the validity and scope of the proprietary rights of others and to defend against claims of infringement or invalidity. The Company expects it or its subsidiaries will be involved in similar legal proceedings in the future, including proceedings regarding infringement of its patents and proceedings to ensure proper and full payment of royalties by licensees under the terms of its license agreements.

The existing and any future legal actions may harm the Company's business. For example, legal actions could cause an existing licensee or strategic partner to cease making royalty or other payments to the Company, or to challenge the validity and enforceability of patents owned by the Company's subsidiaries or the scope of license agreements with the Company's subsidiaries, and could significantly damage the Company's relationship with such licensee or strategic partner and, as a result, prevent the adoption of the Company's other technologies by such licensee or strategic partner. Litigation could also severely disrupt or shut down the business operations of licensees or strategic partners of the Company's subsidiaries, which in turn would significantly harm ongoing relations with them and cause the Company to lose royalty revenue.

The costs associated with legal proceedings are typically high, relatively unpredictable and not completely within the Company's control. These costs may be materially higher than expected, which could adversely affect the Company's operating results and lead to volatility in the price of its common stock. Whether or not determined in the Company's favor or ultimately settled, litigation diverts managerial, technical, legal and financial resources from the Company's business operations. Furthermore, an adverse decision in any of these legal actions could result in a loss of the Company's proprietary rights, subject the Company to significant liabilities, require the Company to seek licenses from others, limit the value of the Company's licensed technology or otherwise negatively impact the Company's stock price or its business and consolidated financial position, results of operations or cash flows.

NOTE 14 – SEGMENT AND GEOGRAPHIC INFORMATION

In connection with the acquisition of DTS, the Company re-evaluated its reportable segments. The Company concluded that it has two reportable segments: (1) Product Licensing and (2) Semiconductor and IP Licensing. There are certain corporate overhead costs that are not allocated to these reportable segments because these operating amounts are not considered in evaluating the operating performance of the Company's business segments.

The Chief Executive Officer is also the Chief Operating Decision Maker ("CODM") as defined by the authoritative guidance on segment reporting. Each segment has its own executive manager.

The Product Licensing segment, including the Company's DTS and FotoNation subsidiaries, licenses its technologies and intellectual property related to audio, digital radio and imaging solutions under the brands DTS, HD Radio and FotoNation. The Product Licensing solutions typically include the delivery of software or hardware based solutions, combined with various other intellectual property, including know how, patents, trademarks, and copyrights. Product Licensing represents revenue derived primarily from the consumer electronics market and related applications servicing the home, automotive and mobile segments.

The Semiconductor and IP Licensing segment develops and licenses semiconductor technologies and IP to manufacturers, foundries, subcontract assemblers and others. The segment includes revenue generated from the technology and IP portfolios of Tessera, Inc., Ziptronix and Invensas. Tessera, Inc. pioneered chip-scale packaging solutions. Ziptronix pioneered low-temperature wafer bonding solutions. Invensas develops 3D semiconductor packaging and interconnect solutions for applications such as smartphones, tablets, laptops, PCs, and data centers. The Company expands its technology and IP offerings in this segment through a combination of internal R&D and acquisitions. The Company also provides engineering services to customers in the form of technology demonstrations and technology transfers to assist their evaluation and adoption of the Company's technologies.

The Company does not identify or allocate assets by reportable segment, nor does the CODM evaluate reportable segments using discrete asset information. Reportable segments do not record inter-segment revenue and accordingly there are none to report. The Company does not allocate other income and expense to reportable segments. Although the CODM uses operating income to evaluate reportable segments, operating costs included in one segment may benefit other segments.

The following table sets forth the Company’s segment revenue, operating expenses and operating income (loss) for the three months ended March 31, 2017 and 2016 (in thousands):

	March 31, 2017	March 31, 2016
Revenue:		
Semiconductor and IP licensing segment	$ 39,554	$ 50,133
Product licensing segment	27,701	9,844
Total revenue	67,255	59,977
Operating expenses:		
Semiconductor and IP licensing segment	22,763	19,477
Product licensing segment	43,182	3,251
Unallocated operating expenses (1)	41,205	11,094
Total operating expenses	107,150	33,822
Operating income (loss):		
Semiconductor and IP licensing segment	16,791	30,656
Product licensing segment	(15,481)	6,593
Unallocated operating expenses (1)	(41,205)	(11,094)
Total operating income (loss)	(39,895)	26,155

(1) Unallocated operating expenses consist primarily of general and administrative expenses, such as administration, human resources, finance, information technology, corporation development and procurement. These expenses are not allocated because it is not practical to do so.

A significant portion of the Company’s revenue is derived from licensees headquartered outside of the U.S., principally in Asia, and it is expected that this revenue will continue to account for a significant portion of total revenue in future periods. The table below lists the geographic revenue for the periods indicated (in thousands):

	Three Months Ended,			
	March 31, 2017		March 31, 2016	
U.S.	$ 33,405	50%	$ 28,661	48%
Korea	6,887	10	13,821	23
Taiwan	7,991	12	7,199	12
Japan	13,891	21	3,677	6
Other	5,081	7	6,619	11
	$ 67,255	100%	$ 59,977	100%

For the three months ended March 31, 2017 and 2016, there were two and four customers, respectively, in each period that each accounted for 10% or more of total revenue.

NOTE 15 - SUBSEQUENT EVENTS

On April 26, 2017, the Board declared a cash dividend of $0.20 per share of common stock, payable on June 14, 2017 for the stockholders of record at the close of business on May 24, 2017.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the attached unaudited condensed consolidated financial statements and notes thereto, and with our audited financial statements and notes thereto for the year ended December 31, 2016 found in the Form 10-K.

This Quarterly Report contains forward-looking statements, which are subject to the safe harbor provisions created by the Private Securities Litigation Reform Act of 1995. Words such as "expects," "anticipates," "plans," "believes," "seeks," "estimates," "could," "would," "may," "intends," "targets" and similar expressions or variations of such words are intended to identify forward-looking statements, but are not the exclusive means of identifying forward-looking statements in this Quarterly Report. The identification of certain statements as "forward-looking" is not intended to mean that other statements not specifically identified are not forward-looking. All statements other than statements about historical facts are statements that could be deemed forward-looking statements, including, but not limited to, statements that relate to our future revenue, product development, demand, acceptance and market share, growth rate, competitiveness, gross margins, levels of research, development and other related costs, expenditures, the outcome or effects of and expenses related to litigation and administrative proceedings related to our patents, our integration of the DTS business, our intent to enforce our intellectual property, our ability to license our intellectual property, tax expenses, cash flows, our ability to liquidate and recover the carrying value of our investments, our management's plans and objectives for our current and future operations, our plans for quarterly dividends and stock repurchases, the levels of customer spending or research and development activities, general economic conditions, and the sufficiency of financial resources to support future operations and capital expenditures.

Although forward-looking statements in this Quarterly Report reflect the good faith judgment of our management, such statements can only be based on facts and factors currently known by us. Consequently, forward-looking statements are inherently subject to risks, uncertainties, and changes in condition, significance, value and effect, including those discussed below under the heading "Risk Factors" within Part II, Item 1A of this Quarterly Report and other documents we file from time to time with the Securities and Exchange Commission (the "SEC"), such as our annual reports on Form 10-K, our quarterly reports on Form 10-Q and our current reports on Form 8-K. Such risks, uncertainties and changes in condition, significance, value and effect could cause our actual results to differ materially from those expressed herein and in ways not readily foreseeable. Readers are urged not to place undue reliance on these forward-looking statements, which speak only as of the date of this Quarterly Report and are based on information currently and reasonably known to us. We undertake no obligation to revise or update any forward-looking statements in order to reflect any event or circumstance that may arise after the date of this Quarterly Report. Readers are urged to carefully review and consider the various disclosures made in this Quarterly Report, which attempt to advise interested parties of the risks and factors that may affect our business, financial condition, results of operations and prospects.

Corporate Information

Our principal executive offices are located at 3025 Orchard Parkway, San Jose, California 95134. Our telephone number is (408) 321-6000. We maintain a website at www.xperi.com. The reference to our website address does not constitute incorporation by reference of the information contained on this website.

Xperi Corporation, the Xperi Corporation logo, Tessera, the Tessera logo, DTS, the DTS logo, FotoNation, the FotoNation logo, Invensas, the Invensas logo, DigitalAperture, FaceTools, FacePower, FotoSavvy, IrisCam, LifeFocus, xFD, FD, DFD, TFD, QFD, BVA, ZiBond, DBI, DTS- *HD* , DTS Sound, DTS Studio Sound, DTS TruSurround, DTS Neural Surround, DTS Headphone:X, DTS Play-Fi, DTS:X and HD Radio are trademarks or registered trademarks of Xperi Corporation or its affiliated companies in the U.S. and other countries. All other company, brand and product names may be trademarks or registered trademarks of their respective companies.

In this Quarterly Report, the "Company," "we," "us" and "our" refer to Xperi Corporation, which operates its business through its subsidiaries. Unless specified otherwise, the financial results in this Quarterly Report are those of the Company and its subsidiaries on a consolidated basis.

Business Overview

Xperi is a publicly-traded technology company based in Silicon Valley with operations around the world. Along with its operating subsidiaries, Xperi creates, develops and licenses innovative audio, computational imaging, computer vision and semiconductor packaging and interconnect technologies. We have approximately 700 employees and over 25 years of operating experience.

We license our innovative technologies and inventions to global electronic device manufacturing companies who, in turn, integrate the technologies into their own enterprise, consumer electronics and semiconductor products. Our technologies and solutions are widely proliferated. Our audio technologies have shipped in billions of devices for the home, mobile and automotive markets. Our imaging technologies are embedded in more than 25% of the current smartphone market. Our semiconductor packaging and interconnect technologies have been licensed to more than 100 customers and have shipped in over 100 billion semiconductor chips. Key end-markets enabled by Xperi's technology solutions include mobile, home, datacenter and automotive.

We completed the acquisition of DTS, Inc. ("DTS"), a publicly-traded developer of sound-based technologies, in December 2016. At the time of the acquisition, Tessera Technologies, Inc. and DTS were combined under the newly-formed Tessera Holding Corporation and shares of the combined company traded on the NASDAQ market under Tessera's ticker symbol TSRA. During the first quarter of 2017, we introduced our new corporate name, Xperi Corporation, launched a new corporate logo, and began trading under a new ticker symbol XPER.

Results of Operations

Due to the generally accepted accounting principles regarding business combinations, we were unable to record $31.3 million in revenue in the three months ended March 31, 2017, that would have been recognized by DTS if not for the acquisition. If allowed, this revenue would have had a significant impact on the operating results as described below.

Revenue

Our revenue is generated primarily from royalty and license fees. Royalty and license fees are generated from licensing the right to use our technologies or intellectual property. Licensees generally report shipment information 30 to 60 days after the end of the quarter in which such activity takes place. Since there is no reliable basis on which we can estimate our royalty revenue prior to obtaining these reports from the licensees, we generally recognize royalty revenue on a one quarter lag. The timing of revenue recognition and the amount of revenue actually recognized for each type of revenue depends upon a variety of factors, including the specific terms of each arrangement, our ability to derive fair value of each element and the nature of our deliverables and obligations. In addition, our royalty revenue will fluctuate based on a number of factors such as: (a) the timing of receipt of royalty reports; (b) the rate of adoption and incorporation of our technology by licensees; (c) the demand for products incorporating semiconductors that use our licensed technology; (d) the cyclicality of supply and demand for products using our licensed technology; (e) volume incentive pricing terms in licensing agreements that may result in significant variability in quarterly revenue recognition from customers and (f) the impact of economic downturns.

From time to time we enter into license agreements that have fixed expiration dates. Upon expiration of such agreements, we need to renew or replace these agreements in order to maintain our revenue base. We may not be able to continue licensing customers on terms favorable to us, under the existing terms or at all, which would harm our results of operations.

In the past, we have engaged in litigation and arbitration proceedings to directly or indirectly enforce our intellectual property rights and the terms of our license agreements, including proceedings to ensure proper and full payment of royalties by our current licensees and by third parties whose products incorporate our intellectual property rights.

The following table presents our historical operating results for the periods indicated as a percentage of revenue:

	Three Months Ended	
	March 31, 2017	March 31, 2016
Revenue:		
Royalty and license fees	100 %	100%
Total revenue	100	100
Operating expenses:		
Cost of revenue	2	—
Research, development and other related costs	39	17
Selling, general and administrative	61	18
Amortization expense	42	10
Litigation expense	15	11
Total operating expenses	159	56
Operating income (loss)	(59)	44
Interest expense	9	—
Other income and expense, net	—	1
Income (loss) before taxes	(68)	45
Provision for (benefit from) income taxes	(52)	15
Net income (loss)	(16)%	30%

Our royalty and license fees were as follows (in thousands, except for percentages):

	Three Months Ended			
	March 31, 2017	March 31, 2016	Increase/ (Decrease)	% Change
Royalty and license fees	$ 67,255	$ 59,977	$ 7,278	12%

The $7.3 million or 12% increase in revenue was due to our acquisition of DTS in December 2016, offset by reductions in licensing revenue from a significant expired agreement as well as seasonality in revenue timing from certain licenses. The majority of per-unit royalties reported by DTS licensees in the first quarter of 2017, which are associated with fourth quarter 2016 shipments by these licensees, as well as minimum guarantee fees from DTS licensees for contracts entered into prior to the December 1, 2016 acquisition, were not recorded as revenue during the period, as under business combination accounting guidance the earnings process was deemed to have been completed prior to the acquisition.

Cost of Revenue
Cost of revenue consists of royalties paid to third parties and direct compensation and related expenses to provide non-recurring engineering services ("NRE"). We anticipate these expenses will continue to increase when compared to 2016 due to royalties paid to third-parties in connection with audio revenue from the acquired DTS business.

Cost of revenue for the three months ended March 31, 2017 and March 31, 2016 were $1.4 million and $0.1 million, respectively.

Research, Development and Other Related Costs
Research, development and other related costs consist primarily of compensation and related costs for personnel, as well as costs related to patent applications and examinations, product "tear downs" and reverse engineering, materials, supplies and equipment depreciation. Research and development is conducted primarily in-house and targets development of audio and image enhancement technologies, chip-scale and multi-chip packaging, circuitry design, 3D-IC architectures, wafer-level packaging technology, bonding technologies and machine learning. All research, development and other related costs are expensed as incurred.

Research, development and other related costs for the three months ended March 31, 2017 were $26.0 million, as compared to $10.1 million for the three months ended March 31, 2016 , an increase of $15.9 million or 158%. The increase was primarily related to an $11.3 million increase in personnel related expenses, a $1.3 million increase in stock based compensation and a

$1.3 million increase in outside services. These increases are a direct result of adding over 225 engineers as part of the acquisition of DTS in December 2016.

We believe that a significant level of research and development expenses will be required for us to remain competitive in the future.

Selling, General and Administrative

Selling expenses consist primarily of compensation and related costs for sales and marketing personnel engaged in sales and licensee support, reverse engineering personnel and services, marketing programs, public relations, promotional materials, travel, trade show expenses, and stock-based compensation expense. General and administrative expenses consist primarily of compensation and related costs for general management, information technology, finance personnel, legal fees and expenses, facilities costs, stock-based compensation expense, and professional services. Our general and administrative expenses, other than facilities related expenses, are not allocated to other expense line items.

Selling, general and administrative expenses for the three months ended March 31, 2017 were $41.2 million, as compared to $11.1 million for the three months ended March 31, 2016 , an increase of $30.1 million. The increase was primarily attributable to an increase of $12.4 million in personnel related expenses, a $5.1 million increase in outside services and a $2.1 million increase in stock based compensation. These increases are a direct result of adding over 200 selling, general and administrative personnel as part of the acquisition of DTS in December 2016. Additionally, marketing expenses increased $4.6 million due primarily to two product marketing conferences related to the acquired DTS audio business and one-time expenses related to the branding of our new company name.

We anticipate selling, general and administrative expenses will remain higher than in the prior year due to the acquisition of DTS. While marketing expenses will remain higher in 2017 compared to 2016, we anticipate marketing expenses will decrease during the remainder of 2017 since the remaining conferences will have lower costs than those attended in the first quarter and the additional branding expenses are non-recurring.

Amortization Expense

Amortization expense for the three months ended March 31, 2017 was $28.6 million, as compared to $6.0 million for the three months ended March 31, 2016 , an increase of $22.6 million. This increase was primarily attributable to intangible assets recorded in connection with the DTS acquisition and the purchase of certain other intangible assets in the fourth quarter of 2016.

With the acquisition of DTS, we anticipate that amortization expenses will continue to be a significant expense since we acquired approximately $479 million in intangible assets which will be amortized over the next several years. See Note 7 " *Goodwill and Identified Intangible Assets"* in the notes to the financial statements for additional information.

Litigation Expense

Litigation expense for the three months ended March 31, 2017 was $10.0 million, as compared to $6.6 million for the three months ended March 31, 2016 , an increase of $3.4 million, or 52%. This increase is primarily related to our ongoing legal proceedings with Broadcom.

We expect that litigation expense may continue to be a material portion of our operating expenses in future periods, and may fluctuate between periods, because of planned or ongoing litigation, as described in Part II, Item 1 – *Legal Proceeding* s, and because of litigation planned for or initiated from time to time in the future in order to enforce and protect our intellectual property and contract rights.

Upon expiration of our customers' licenses, if those licenses are not renewed, litigation may become necessary to secure payment of reasonable royalties for the use of our patented technology. If we plan for or initiate such litigation, our future litigation expenses may increase.

Stock-based Compensation Expense

The following table sets forth our stock-based compensation expense for the three months ended March 31, 2017 and 2016 (in thousands):

	Three Months Ended,	
	March 31, 2017	March 31, 2016
Research, development and other related costs	$ 2,870	$ 1,384
Selling, general and administrative	4,211	2,256
Total stock-based compensation expense	$ 7,081	$ 3,640

Stock-based compensation awards include employee stock options, restricted stock awards and units, and employee stock plan purchases. For the three months ended March 31, 2017, stock-based compensation expense was $7.1 million, of which $0.6 million related to employee stock options, $6.0 million related to restricted stock awards and units and $0.4 million related to employee stock plan purchases. For the three months ended March 31, 2016, stock-based compensation expense was $3.6 million, of which $0.5 million related to employee stock options, $2.9 million related to restricted stock awards and units and $0.2 million related to employee stock plan purchases. The increase in stock-based compensation for the three months ended March 31, 2017, resulted primarily from the increased headcount due to our acquisition of DTS.

Interest Expense

Interest expense for the three months ended March 31, 2017 was $6.5 million. There was no interest expense in the three months ended March 31, 2016 since the related debt was incurred in December 2016.

Other Income and Expense, Net

Other income and expense, net for the three months ended March 31, 2017 was $0.1 million, as compared to $0.8 million for the three months ended March 31, 2016 . Other income was higher in the prior year due to higher cash and investment balances.

Provision for (benefit from) Income Taxes

For the three months ended March 31, 2017, the Company recorded an income tax benefit of $35.3 million on a pre-tax loss of $46.3 million which resulted in an effective tax rate of 76.2%. The effective tax rate was primarily related to losses in foreign operations, as the Company's tax rates on those operations are generally lower than the U.S. statutory rate. For the three months ended March 31, 2016, the Company recorded an income tax provision of $8.9 million on pre-tax income of $27.0 million which resulted in an effective tax rate of 32.9 %. This rate was primarily related to foreign withholding taxes and tax liability generated from U.S. and foreign operations. The Company's provision for income taxes is based on its worldwide estimated annualized effective tax rate, except for jurisdictions for which a loss is expected for the year and no benefit can be realized for those losses, and the tax effect of discrete items occurring during the period. The tax for jurisdictions for which a loss is expected and no benefit can be realized for the year is based on actual taxes and tax reserves for the quarter. The income tax benefit for the three months ended March 31, 2017 as compared to the income tax provision during the same period in the prior year is largely attributable to the quarterly loss generated from U.S. and foreign operations. Based on the Company's current forecast of profits in the U.S. and losses in foreign jurisdictions, we expect our 2017 annualized effective tax rate to remain much higher than the U.S. federal statutory tax rate.

The need for a valuation allowance requires an assessment of both positive and negative evidence when determining whether it is more likely than not that deferred tax assets are recoverable; such assessment is required on a jurisdiction-by-jurisdiction basis. In making such assessment, significant weight is given to evidence that can be objectively verified. As such, we determined that no valuation allowance is required on the majority of our federal deferred tax assets. In the future, we may release valuation allowance and recognize deferred state tax assets or deferred tax assets of other foreign subsidiaries depending on achievement of forecasted profitability in relevant jurisdictions. We continue to monitor the likelihood that we will be able to recover our deferred tax assets, including those for which a valuation allowance is still recorded. There can be no assurance that we will generate profits in future periods enabling us to fully realize our deferred tax. The timing of recording a valuation allowance or the reversal of such valuation allowance is subject to objective and subjective factors that cannot be readily predicted in advance. Adjustments could be required in the future if we conclude that it is more likely than not that deferred tax assets are not recoverable. A provision for a valuation allowance could have the effect of increasing the income tax provision in the statement of operations in the period the valuation allowance is provided.

Segment Operating Results

In connection with the acquisition of DTS, we re-evaluated our reportable segments. We concluded that we have two reportable segments: (1) Semiconductor and IP Licensing and (2) Product Licensing. Quarterly results for the first quarter of 2016 have been recast to conform with this segment presentation. There are certain corporate overhead costs that are not allocated to these reportable segments because these operating amounts are not considered in evaluating the operating performance of the Company's business segments.

The Chief Executive Officer is also the Chief Operating Decision Maker ("CODM") as defined by the authoritative guidance on segment reporting. Each segment has its own executive manager.

The Product Licensing segment licenses technologies related to audio, digital radio, and imaging solutions under the brands DTS, HD Radio and FotoNation. Our Product Licensing solutions typically include the delivery of software and/or hardware based solutions to our customers or to their suppliers. Product Licensing revenue is derived primarily from the consumer electronics market and related applications servicing the home, automotive and mobile segments.

The Semiconductor and IP Licensing segment develops and licenses semiconductor technologies and intellectual property (IP) to semiconductor manufacturers, foundries, subcontract assemblers and others. This segment includes revenue generated from technology transfer agreements and licenses to our IP. We have a deep history of developing and monetizing next-generation technologies, including chip-scale packaging solutions and low-temperature wafer bonding solutions. Today, we are actively developing 3D semiconductor packaging, interconnect and bonding solutions for products such as smartphones, tablets, laptops, PCs, and data centers. We expand technology and IP offerings through a combination of internal R&D and acquisitions. We also provide engineering services to our customers in the form of technology demonstrations and technology transfers to assist their evaluation and adoption of our technologies.

We do not identify or allocate assets by reportable segment, nor does the CODM evaluate reportable segments using discrete asset information. Reportable segments do not record inter-segment revenue and accordingly there are none to report. Although the CODM uses operating income to evaluate reportable segments, operating costs included in one segment may benefit other segments.

The following table sets forth our segments' revenue, operating expenses and operating income (loss) (in thousands):

	March 31, 2017	March 31, 2016
Revenue:		
Semiconductor and IP licensing segment	$ 39,554	$ 50,133
Product licensing segment	27,701	9,844
Total revenue	67,255	59,977
Operating expenses:		
Semiconductor and IP licensing segment	22,763	19,477
Product licensing segment	43,182	3,251
Unallocated operating expenses (1)	41,205	11,094
Total operating expenses	107,150	33,822
Operating income (loss):		
Semiconductor and IP licensing segment	16,791	30,656
Product licensing segment	(15,481)	6,593
Unallocated operating expenses (1)	(41,205)	(11,094)
Total operating income (loss)	(39,895)	26,155

(1) Unallocated operating expenses consist primarily of general and administrative expenses, such as administration, human resources, finance, information technology, corporation development and procurement. These expenses are not allocated because it is not practical to do so.

The revenue and operating income amounts in this section have been presented on a basis consistent with GAAP applied at the segment level. Of our $386.4 million in goodwill at March 31, 2017, approximately $378.7 million is allocated to our Product Licensing reporting unit and approximately $7.7 million is allocated to our Semiconductor and IP Licensing reporting unit.

For the three months ended March 31, 2017, the unallocated expenses were $41.2 million compared to $11.1 million for the three months ended March 31, 2016. The increase of $30.1 million from the three months ended March 31, 2017 was primarily attributable to higher general and administrative personnel expenses that resulted from the acquisition of DTS.

Product Licensing Segment

	March 31, 2017	March 31, 2016
Revenue:		
Royalty and license fees	$ 27,701	$ 9,843
Total revenue	27,701	9,843
Operating expenses:		
Cost of revenue	1,400	86
Research, development and other related costs	19,047	2,944
Amortization	22,735	220
Total operating expenses	43,182	3,250
Total operating income (loss)	$ (15,481)	$ 6,593

Due to the generally accepted accounting principles regarding business combinations, we were unable to record customer billings totaling $31.3 million as revenue in the Product Licensing segment during the three months ended March 31, 2017. If allowed, this revenue would have had a significant impact on the operating results as described below.

Product Licensing revenue for the three months ended March 31, 2017 was $27.7 million as compared to $9.8 million for the three months ended March 31, 2016, an increase of $17.9 million. The increase was due to revenue from licenses added through the DTS acquisition. We anticipate revenue for the remainder of 2017 to be higher than revenue for 2016 due to the DTS acquisition and as a significant customer, previously under a contractual limit, began shipping products in 2017 pursuant to a new contract.

Operating expenses for the three months ended March 31, 2017 were $43.2 million and consisted of cost of revenue of $1.4 million, research, development and other related costs of $19.0 million and amortization costs of $22.7 million. The increase of $39.9 million in total operating expenses as compared to $3.3 million for the three months ended March 31, 2016 is due to the acquisition of DTS. The increases are largely related to personnel-related costs including salary and benefits and stock based compensation from the increased headcount, as well as amortization due to the $479 million of intangible assets acquired in 2016. We anticipate remaining 2017 operating expenses will continue being higher than 2016 as the audio business expenses and higher intangible asset amortization will be incurred for the full year.

The operating loss for the three months ended March 31, 2017 was $15.5 million compared to operating income of $6.6 million in the three months ended March 31, 2016, which represented a decrease of $22.1 million, for the reasons stated above.

Semiconductor and IP Licensing Segment

	March 31, 2017	March 31, 2016
Revenue:		
Royalty and license fees	$ 39,554	$ 50,133
Total revenue	39,554	50,133
Operating expenses:		
Research, development and other related costs	6,965	7,125
Litigation	9,979	6,550
Amortization	5,819	5,802
Total operating expenses	22,763	19,477
Total operating income	$ 16,791	$ 30,656

Semiconductor and IP Licensing segment revenue for the three months ended March 31, 2017 was $39.6 million as compared to $50.1 million for the three months ended March 31, 2016, a decrease of $10.5 million. The decrease is related to the expiration of a significant agreement.

Operating expenses for the three months ended March 31, 2017 were $22.8 million and consisted of research, development and other related costs of $7.0 million, litigation costs of $10.0 million and amortization costs of $5.8 million. The increase of $3.3 million in total operating expenses as compared to $19.5 million for the three months ended March 31, 2016, resulted from higher litigation costs as a result of the filing of the legal proceedings against Broadcom.

We expect that litigation expense will continue to be a material portion of the Semiconductor and IP Licensing segment's operating expenses in future periods, and may fluctuate significantly in some periods, because of our ongoing legal actions, as described in Part II, Item 1 -*Legal Proceedings* , and because we may become involved in other litigation from time to time in the future in order to enforce and protect our intellectual property and contract rights.

Operating income for the three months ended March 31, 2017 and 2016 was $16.8 million and $30.7 million, respectively, which represented a decrease of $13.9 million, for the reasons stated above.

Liquidity and Capital Resources

	As of	
(in thousands, except for percentages)	**March 31, 2017**	**March 31, 2016**
Cash and cash equivalents	$ 60,548	$ 33,435
Short-term investments	53,138	330,012
Total cash, cash equivalents and short-term investments	$ 113,686	$ 363,447
Percentage of total assets	10%	71%

	Three Months Ended	
	March 31, 2017	**March 31, 2016**
Net cash from operating activities	$ 18,962	$ 30,148
Net cash from investing activities	$ (6,373)	$ 26,971
Net cash from financing activities	$ (9,198)	$ (46,283)

Our primary sources of liquidity and capital resources are our operating cash flows and our investment portfolio. Cash, cash equivalents and investments were $113.7 million at March 31, 2017 , an increase of $0.7 million from $113.0 million at December 31, 2016 . This increase resulted from $19.0 million in cash from operations and from $5.4 million in proceeds from the exercise of stock options and employee stock purchases. This increase was partially offset by $9.8 million in dividends paid during the first three months of 2017 and $8.5 million in cash that is now considered restricted due to its potential use as bond collateral in our ongoing litigation with Broadcom. Cash and cash equivalents were $60.5 million at March 31, 2017 , a decrease of $5.1 million from $65.6 million at December 31, 2016 .

Cash flows provided by operations were $19.0 million for the three months ended March 31, 2017 , primarily due to our net loss of $11.0 million being adjusted for non-cash items of depreciation of $1.8 million, amortization of intangible assets of $28.6 million, stock-based compensation expense of $7.1 million and $30.4 million in changes in operating assets and liabilities. These increases were partially offset by $38.0 million in deferred income taxes and other net.

Cash flows provided by operations were $30.1 million for the three months ended March 31, 2016, primarily due to our net income of $18.1 million being adjusted for non-cash items of depreciation of $0.4 million, amortization of intangible assets of $6.0 million, stock-based compensation expense of $3.6 million and $2.8 million in deferred taxes and other. These were partially offset by $2.4 million in changes in operating assets and liabilities.

Net cash used for investing activities was $6.4 million for the three months ended March 31, 2017 , primarily related to the purchases of available-for-sale securities of $11.5 million and $0.6 million in capital expenditures offset by maturities and sales of short-term investments of $5.7 million. Net cash provided by investing activities was $27.0 million for the three months ended March 31, 2016, primarily related to the maturities and sales of short-term investments of $59.5 million, offset by the purchases of available-for-sale securities of $30.5 million and $2.0 million in expenditures to upgrade our information technology equipment and to purchase additional research and development lab equipment.

Net cash used in financing activities was $9.2 million for the three months ended March 31, 2017 due to dividend payments of $9.8 million and $1.5 million in debt repayments, offset by $5.4 million in proceeds due to the issuance of common stock under our employee stock option programs and employee stock purchase plans. Net cash used in financing activities was $46.3 million for the three months ended March 31, 2016 due to dividend payments of $10.0 million and stock repurchases of $38.2 million (including $36.5 million under our stock repurchase program), offset by $1.9 million in proceeds due to the issuance of common stock under our employee stock option programs and employee stock purchase plans.

The primary objectives of our investment activities are to preserve principal and to maintain liquidity while at the same time capturing a market rate of return. To achieve these objectives, we maintain a diversified portfolio of debt securities including corporate bonds and notes, municipal bonds and notes, commercial paper, treasury and agency notes and bills, certificates of deposit and money market funds. We invest excess cash predominantly in high-quality investment grade debt securities with less than three years to maturity. Our marketable securities are classified as available-for-sale and are reported at fair value, with unrealized gains and losses, net of tax, recorded in accumulated other comprehensive income. The fair values for our securities are determined based on quoted market prices as of the valuation date and observable prices for similar assets.

We evaluate our investments periodically for possible other-than-temporary impairment and review factors such as the length of time and extent to which fair value has been below cost basis, the financial condition of the issuer, our ability and intent to hold the security until maturity on a more likely than not basis. If declines in the fair value of the investments are determined to be other-than-temporary, we report the credit loss portion of such decline in other income and expense, on a net basis, and the remaining noncredit loss portion in accumulated other comprehensive income. For the quarter ended March 31, 2017 and year ended December 31, 2016, no impairment charges were recorded with respect to our investments.

On December 1, 2016, we entered into a Credit Agreement which provided for a $600 million seven-year term B loan facility. The Term B Loan Facility matures on November 30, 2023. Upon the closing of the Credit Agreement, we borrowed $600 million under the Term B Loan facility. These proceeds were used on December 1, 2016, together with cash and cash equivalents, to finance the acquisition of DTS. The obligations under the Credit Agreement are guaranteed by substantially all of our assets pursuant to the Security Agreement, dated December 1, 2016, among us, Royal Bank of Canada, as collateral agent, and the other pledgors party thereto. At March 31, 2017, $598.5 million was outstanding under this loan facility with an interest rate, including amortization of debt issuance costs, of 4.4%. Interest is payable monthly and nominal principal payments are due quarterly. We have future minimum principal payments for our debt of $6.0 million annually through 2022 with the remaining principal balance due in 2023. We currently anticipate making accelerated principal payments commencing in late 2017 or early 2018.

In August 2007, our Board of Directors ("the Board") authorized a plan to repurchase our outstanding shares of common stock dependent on market conditions, share price and other factors. In January 2016, the Board authorized an additional $200 million in future repurchases under the plan, and as of March 31, 2017, the total amount available for repurchase under the plan was $158.2 million. No expiration has been specified for this plan. Since the inception of the plan, and through March 31, 2017, we have repurchased approximately 10.5 million shares of common stock at a total cost of $291.8 million at an average price of $27.83. There were no repurchases of common stock under the plan during the three months ended March 31, 2017.

We plan to continue to execute authorized repurchases from time to time under the plan, although we expect to decrease share repurchases during 2017 as we accumulate cash to pay down the indebtedness incurred to finance the DTS acquisition.

Since March 2015, we have paid a quarterly dividend of $0.20 per share. We anticipate that all quarterly dividends will be paid out of cash, cash equivalents and short-term investments.

We believe that based on current levels of operations and anticipated growth, our cash from operations, together with cash, cash equivalents and short-term investments currently available, will be sufficient to fund our operations, debt service, dividends and stock repurchases and acquisition needs for at least the next twelve months. Poor financial results, unanticipated expenses, unanticipated acquisitions of technologies or businesses or unanticipated strategic investments could give rise to additional financing requirements sooner than we expect. There can be no assurance that equity or debt financing will be available when needed or, if available, that such financing will be on terms satisfactory to us and not dilutive to our then-current stockholders.

Contractual Cash Obligations

Our operating lease obligations represent aggregate future minimum lease payments under non-cancelable facility and equipment operating leases. For our facilities leases, rent expense charged to operations differs from rent paid because of scheduled rent increases. Rent expense is calculated by amortizing total rental payments on a straight-line basis over the lease term. There have been no material changes to our future minimum lease payments in the three months ended March 31, 2017.

As of March 31, 2017, we had accrued $15.4 million of unrecognized tax benefits in long term income taxes payable related to uncertain tax positions, and accrued approximately $0.5 million of interest. At this time, we are unable to reasonably estimate the timing of the long-term payments or the amount by which the liability will increase or decrease over time. As a result, this amount is not included in the table above.

See Note 13 – " *Commitments and Contingencies* " of the Notes to the Condensed Consolidated Financial Statements for additional detail.

Off-Balance Sheet Arrangements

As of March 31, 2017 , we did not have any off-balance sheet arrangements as defined in item 303(a)(4)(ii) of Regulation S-K.

Critical Accounting Policies and Estimates

During the three months ended March 31, 2017 there were no significant changes in our critical accounting policies. See Note 2 – *"Summary of Significant Accounting Policies* " of the Notes to the Condensed Consolidated Financial Statements for additional detail. For a discussion of our critical accounting policies and estimates, see Part II, Item 7 – *Management's Discussion and Analysis of Financial Condition and Results of Operations* in the Form 10-K.

Recent Accounting Pronouncements

See Note 2 – *"Summary of Significant Accounting Policies* " of the Notes to the Condensed Consolidated Financial Statements for a full description of recent accounting pronouncements including the respective expected dates of adoption.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

For a discussion of the Company's market risk, see Item 7A – *Quantitative and Qualitative Disclosures About Market Risk* in the Form 10-K.

Item 4. Controls and Procedures

Attached as exhibits to this Form 10-Q are certifications of Xperi Corporation's Chief Executive Officer and Chief Financial Officer, which are required in accordance with Rule 13a-14 of the Exchange Act. This "Controls and Procedures" section includes information concerning the controls and controls evaluation referred to in the certifications and it should be read in conjunction with the certifications, for a more complete understanding of the topics presented.

Evaluation of Controls and Procedures

Xperi Corporation maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed pursuant to the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act as of the end of the period covered by this report (the evaluation date). Based on this evaluation, our principal executive officer and principal financial officer concluded as of the evaluation date that our disclosure controls and procedures were effective to provide reasonable assurance that the information relating to Xperi Corporation, including our consolidated subsidiaries, required to be disclosed in our SEC reports (i) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) is accumulated and communicated to Xperi Corporation's management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Change in Internal Control over Financial Reporting

There has been no change in Xperi Corporation's internal control over financial reporting, as defined in Exchange Act Rules 13a-15(f) and 15d-15(f), during Xperi Corporation's most recent quarter that has materially affected, or is reasonably likely to materially affect, Xperi Corporation's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Other than to the extent the proceedings described below have concluded, we cannot predict the outcome of any of the proceedings described below. An adverse decision in any of these proceedings could significantly harm our business and our consolidated financial position, results of operations, and cash flows.

Parshall v. DTS, Inc., et al., Civil Action No. 12870 (Court of Chancery, State of Delaware)

On November 2, 2016, an alleged stockholder of DTS, Inc. ("DTS"), Paul Parshall, filed a putative class action lawsuit in the State of Delaware Court of Chancery against DTS, members of DTS's board of directors, the Company, and certain subsidiaries. The complaint purports to allege claims for breach of fiduciary duty against members of DTS's Board of Directors, and aiding and abetting against DTS and the Company. The complaint seeks, inter alia, certification as a class action; an order enjoining the merger or, if it is consummated, an order rescinding it; damages; and attorneys' fees. On November 7, 2016, after the proxy statement at issue was amended, Parshall's counsel filed a letter with the Court acknowledging the supplemental disclosures and withdrawing Parshall's motion to expedite.

On December 22, 2016, the Court entered a Stipulation and Order dismissing the Action with prejudice as to Parshall, and without prejudice as to any other putative class member, and retaining jurisdiction solely for the purpose to determine Parshall's counsel's anticipated application for an award of attorneys' fees and reimbursement of expenses (the "Fee and Expense Application"). After negotiations, DTS made a fee and expense payment to Parshall's counsel in the action in the amount of $100,000 to resolve the Fee and Expense Application. DTS maintains that the Proxy Statement did not contain material misstatements or omissions, and agreed to pay this amount solely to avoid the cost and burden of litigation concerning the Fee and Expense Application. The Delaware Court of Chancery was not asked to review, and passed no judgment on, this payment of fees and expenses or its reasonableness.

On April 7, 2017, the Court closed the case pursuant to the parties' stipulation. This matter is now concluded.

Tessera, Inc. v. Toshiba Corporation, Civil Action No. 5:15-cv-02543-BLF (N.D. Cal.)

On May 12, 2015, Tessera, Inc. filed a complaint against Toshiba Corporation (“Toshiba”) in California Superior Court. Tessera, Inc.’s complaint alleges causes of action for breach of contract, breach of the implied covenant of good faith and fair dealing, and declaratory relief, generally alleging that Toshiba underpaid royalties and failed to cooperate with audits conducted pursuant to the parties’ license agreement.

On June 8, 2015, Toshiba removed the action to the U.S. District Court for the Northern District of California. On June 18, 2015, Toshiba filed its answer, affirmative defenses, and counterclaims to Tessera, Inc.’s complaint. Toshiba alleges counterclaims for declaratory judgment and breach of the implied warranty of good faith and fair dealing. The counterclaims seek, among other things, judicial determinations about the interpretation of the parties’ agreement, termination of the agreement, an accounting of the amount of alleged overpayments by Toshiba, restitution, and damages. On July 10, 2015, Tessera, Inc. filed its answer and affirmative defenses to Toshiba’s counterclaims. On March 17, 2016, Tessera, Inc. filed an amended complaint adding a claim for declaratory relief regarding a February 12, 2016 letter sent by Toshiba to Tessera, Inc. purporting to terminate the parties’ license agreement. On March 18, 2016, Toshiba filed its amended answer, affirmative defenses, and counterclaims. On April 4, 2016, Tessera, Inc. filed an answer to Toshiba’s amended counterclaims.

An initial summary judgment hearing on contract issues took place on September 22, 2016. On November 7, 2016, the Court entered an order granting Toshiba’s motion regarding the definition of “TCC,” and denying summary judgment on the other issues raised by the parties’ cross-motions. On December 6, 2016, Tessera, Inc. filed a motion pursuant to Federal Rule of Civil Procedure 54(b) seeking authorization to appeal the order and for a stay. On March 6, 2017, the Court granted the Rule 54(b) motion. The Court subsequently vacated the trial date and stayed the remainder of the district court proceedings.

On April 4, 2017, Tessera, Inc. filed a notice of appeal with the U.S. District Court for the Northern District of California. On April 5, 2017, U.S. Court of Appeals for the Ninth Circuit issued its Time Schedule Order. Tessera, Inc.’s opening brief is due July 13, 2017, and Toshiba’s answering brief is due August 14, 2017. A hearing for oral argument has not yet been scheduled.

Certain Semiconductor Devices, Semiconductor Device Packages, and Products Containing Same, Inv. No. 337-TA-1010 (U.S. International Trade Commission, Washington, D.C.)

On May 23, 2016, Tessera Technologies, Inc., Tessera, Inc., and Invensas Corporation (collectively, “Complainants”) filed a complaint at the U.S. International Trade Commission (“the Commission”), requesting that the Commission institute an investigation against Respondents Broadcom Limited, Broadcom Corporation, Avago Technologies Limited, Avago Technologies U.S. Inc., ARRIS International plc, ARRIS Group, Inc., ARRIS Technology, Inc., ARRIS Enterprises LLC, ARRIS Solutions, Inc., Pace Americas, LLC, Pace USA LLC, Pace Ltd., ASUSTeK Computer Inc., ASUS Computer International, HTC Corporation, HTC America, Inc., NETGEAR, Inc., Arista Networks, Inc. Comcast Cable Communications, LLC, Comcast Cable Communications Management, LLC, Comcast Business Communications, LLC, Technicolor S.A., Technicolor USA, Inc., and Technicolor Connected Home USA LLC (collectively, “Respondents”). The complaint alleges that the Respondents infringe U.S. Patent Nos. 6,849,946, 6,133,136, and 6,856,007. The complaint requests that the Commission issue a permanent limited exclusion order excluding from entry into the United States the infringing products of the Respondents. In addition, the complaint requests that the Commission issue a permanent cease and desist order prohibiting the Respondents from, among other things, importing, selling, or distributing the infringing products.

Based on the complaint, the Commission instituted Investigation No. 337-TA-1010 on June 20, 2016. The Respondents filed responses to the complaint on July 26, 2016. On September 19, 2016, the Complainants filed an amended complaint to reflect the issuance of a Certificate of Correction relating to U.S. Patent No. 6,133,136. The Respondents filed responses to the amended complaint on October 11, 2016.

The ALJ issued a claim construction order on February 6, 2017. Fact discovery closed on December 16, 2016. Complainants and Respondents filed multiple motions for summary determination, which were largely denied with certain exceptions including the following. On February 27, 2017, the ALJ granted Comcast’s motion for summary determination of no violation of section 337 as to certain of Comcast’s rental products, and issued an initial determination in Comcast’s favor to that extent. The Commission declined to review the initial determination. Comcast remains as a Respondent in the investigation, as do products of other Respondents that were the subject of the motion. On February 27, 2017, the ALJ also granted a motion for summary determination of no violation by respondents Avago Technologies Ltd. and Avago Technologies, U.S. Inc. on the basis that the Complainants did not accuse them of any violations. The ALJ noted that because Broadcom Ltd. remains a respondent, the Commission’s remedial orders could likely be enforced against any successor to Broadcom’s allegedly infringing activities. The Complainants elected not to seek review of this order. On March 15, 2017, the ALJ granted-in-part and denied-in-part the Respondents’ motion for summary determination of non-infringement of U.S. Patent No. 6,856,007. The patent remained in the investigation in certain respects, and the Complainants elected not to seek review of this order.

The evidentiary hearing took place from March 27 to March 31, 2017. The initial determination is due June 26, 2017. The target date for completion of the Investigation is October 24, 2017.

Tessera, Inc., et al. v. Broadcom Corp., Case No. DED-1-16-cv-00379 (D. Del.)

On May 23, 2016, Tessera, Inc. and Invensas Corporation filed a complaint against Broadcom Corporation ("Broadcom") in the U.S. District Court for the District of Delaware. The complaint alleges that Broadcom infringes U.S. Patent Nos. 6,133,136, 6,849,946, and 6,856,007 and requests, among other things, that Broadcom be ordered to pay compensatory damages in an amount no less than a reasonable royalty. Broadcom filed an answer to the complaint on July 14, 2016. On September 8, 2016, Tessera, Inc. and Invensas Corporation filed an amended complaint to reflect the issuance of a Certificate of Correction relating to U.S. Patent No. 6,133,136.

On July 18, 2016, Broadcom filed a motion to transfer venue and an unopposed motion to stay in light of the pending proceeding in the U.S. International Trade Commission involving the same patents. The Court granted the unopposed motion to stay on September 9, 2016, and the case is currently stayed. The Court denied the motion to transfer venue on March 21, 2017.

Tessera, Inc., et al. v. Broadcom Corp., Case No. DED-1-16-cv-00380 (D. Del.)

On May 23, 2016, Tessera, Inc. and Tessera Advanced Technologies, Inc. filed a complaint against Broadcom in the U.S. District Court for the District of Delaware. The complaint alleges that Broadcom infringes U.S. Patent Nos. 5,666,046, 6,043,699, 6,284,563, and 6,954,001. Tessera, Inc. and Tessera Advanced Technologies, Inc. filed an amended complaint on June 19, 2016 alleging infringement of three additional patents, U.S. Patent Nos. 6,046,076, 6,080,605, and 6,218,215. The complaint requests, among other things, that Broadcom be ordered to pay compensatory damages in an amount no less than a reasonable royalty. On July 14, 2016, Broadcom filed an answer to the amended complaint. On September 8, 2016, Tessera filed a second amended complaint to reflect the issuance of a Certificate of Correction relating to U.S. Patent No. 6,954,001. On September 26, 2016, Broadcom answered the second amended complaint.

On July 18, 2016, Broadcom filed a motion to transfer venue. The Court denied the motion on March 21, 2017. A claim construction hearing is scheduled for August 7, 2017. The discovery cutoff date is December 22, 2017. A jury trial is set for October 9, 2018.

Invensas Corp. v. Avago Technologies Limited, et al., Case No. DED-1-16-cv-1033 (D. Del.)

On November 7, 2016, Invensas Corporation filed a complaint against Avago Technologies Limited and Avago Technologies U.S. Inc., Emulex Corporation, LSI Corporation, and PLX Technology, Inc. (collectively "Avago") in the U.S. District Court for the District of Delaware. The complaint alleges that Avago infringes U.S. Patent Nos. 6,849,946 and 6,133,136 and requests, among other things, that Avago be ordered to pay compensatory damages in an amount no less than a reasonable royalty. On December 6, 2016, Avago filed an unopposed motion to stay in light of the pending proceeding in the U.S. International Trade Commission involving the same patents, Inv. No. 337-TA-1010. The Court granted the unopposed motion to stay on December 7, 2016, and this action is currently stayed.

Tessera, Inc., et al. v. Avago Technologies Limited, et al., Case No. DED-1-16-cv-1034 (D. Del.)

On November 7, 2016, Tessera, Inc. and Invensas Corporation filed a complaint against Avago Technologies Limited, Avago Technologies U.S. Inc. and Avago Technologies Wireless (U.S.A) Manufacturing Inc. (collectively "Avago") in the U.S. District Court for the District of Delaware. The complaint alleges that Avago infringes U.S. Patent Nos. 6,573,609 and 6,972,480. On January 12, 2017 Avago filed an answer to the complaint. Tessera, Inc. and Invensas Corporation filed an amended complaint on January 31, 2017 against Avago Technologies U.S. Inc., Avago Technologies Wireless (U.S.A) Manufacturing Inc., Emulex Corporation, LSI Corporation, and PLX Technology, Inc. (collectively "Defendants") alleging infringement of three additional patents, U.S. Patent Nos. 6,046,076, 6,080,605, and 6,218,215. The complaint requests, among other things, that Defendants be ordered to pay compensatory damages in an amount no less than a reasonable royalty. Defendants filed an answer to the amended complaint on March 16, 2017. A claim construction hearing is scheduled for April 2, 2018. A jury trial is set for June 17, 2019.

Invensas Corp. v. Mouser Electronics Inc., et al., Case No. 7 O 97/16 (Regional Court of Mannheim, Germany)

On May 23, 2016, Invensas Corporation ("Invensas") filed a complaint against Mouser Electronics, Inc., EBV Elektronik GmbH & Co. KG, Arrow Central Europe GmbH, and Broadcom Germany GmbH in the Regional Court of Mannheim, Germany. The complaint alleges that the respondents infringe Invensas' European Patent EP 1 186 034 B1. On August 26, 2016, the respondents filed their answer to the complaint. Invensas filed its reply on November 15, 2016, and the respondents filed a rejoinder on January 13, 2017. A bench trial took place on February 3, 2017.

On March 17, 2017, the Court issued a judgment in Invensas' favor, finding that the respondents infringe the patent. The Court ordered that the respondents cease offering, distributing, using, or importing (or possessing for said reasons) the infringing products in Germany; recall infringing products from the German market; destroy or have destroyed infringing products in their possession in Germany; and provide an accounting of their infringing activities. The Court further ordered Invensas to post bonds of approximately €3 million as security for damages that may result from the injunction if it is ultimately found to have been improperly granted. Invensas posted the required bonds. On April 26, 2017, the respondents filed a notice of appeal with the Higher Regional Court ("Oberlandesgericht") Karlsruhe.

Invensas Corp. v. Broadcom Ltd., et al., Case No. 7 O 98/16 (Regional Court of Mannheim, Germany)

On May 23, 2016, Invensas filed a complaint against Broadcom Ltd. and Broadcom Corporation in the Regional Court of Mannheim, Germany, alleging infringement of Invensas' European Patent EP 1 186 034 B1. On September 22, 2016, the respondents filed their answer to the complaint. Invensas filed its reply on November 15, 2016, and the respondents filed a rejoinder on January 13, 2017. A bench trial took place on February 3, 2017.

On March 17, 2017, the Court issued a judgment in Invensas' favor, finding that the respondents infringe the patent. The Court ordered that the respondents cease offering, distributing, using, or importing (or possessing for said reasons) the infringing products in Germany; recall infringing products from the German market; destroy or have destroyed infringing products in their possession in Germany; and provide an accounting of their infringing activities. To make the judgment enforceable, the Court ordered Invensas to post bonds of approximately €3.6 million as security for damages that may result from the injunction if it is ultimately found to have been improperly granted. Invensas posted the required bonds.

The respondents appealed to the Higher Regional Court ("Oberlandesgericht") Karlsruhe, Case No. 6 U 24/17. In addition to appealing the infringement decision on the merits, the respondents filed motions seeking to stay enforcement of the judgment, and to increase the amount of the security bonds to approximately €500 million. Invensas' filed a response to the motions to stay enforcement and to increase the amount of the security on April 25, 2017; Invensas' response to the merits of the appeal is due May 15, 2017. No hearing date has been set either on the motions or the appeal.

Avago Technologies GmbH v. Invensas Corp. (German Federal Patent Court, Germany)

On August 25, 2016, Avago Technologies GmbH, a German affiliate of Broadcom Ltd., filed a nullity action against the German part of European patent EP 1 186 034 B1 in the German Federal Patent Court. The complaint alleges that the patent was neither new nor inventive over prior art and that certain claims are not disclosed in a way to enable the person skilled in the art to practice the invention. The complaint further alleges that the patent's priority was invalidly claimed. It requests that the German part of the patent be nullified. Invensas' deadline to file the grounds for its opposition is May 8, 2017. The hearing is scheduled for January 25, 2018.

Invensas Corp. v. Broadcom Ltd., et al., Case No. KG/RK 16-912 (District Court of The Hague, Netherlands)

On May 23, 2016, Invensas filed a writ of summons against Broadcom Ltd., Broadcom Corporation, Broadcom Netherlands B.V., Broadcom Communications Netherlands B.V., EBV Elektronik GmbH & Co. KG, Arrow Central Europe GmbH, and Mouser Electronics Netherlands B.V. in the District Court of The Hague, Netherlands. The complaint alleges that the defendants infringe Invensas' European Patent EP (NL) 1 186 034 B1, and requests, among other things, that the defendants cease and desist any infringement of the patent in suit in the Netherlands; inform all persons/entities to whom the defendants delivered, sold, or offered for sale any infringing products that they will no longer do so; recall allegedly infringing products; and pay damages.

The defendants filed a statement of answer to the writ of summons, and a counterclaim of invalidity, on November 9, 2016. Invensas filed its statement of answer to the defendants' counterclaim on January 4, 2017. A bench trial is scheduled for November 3, 2017.

Patent Office Proceedings

U.S. Patent No. 5,666,046

On January 30, 2017, Broadcom Corporation filed with the PTAB a petition for inter partes review of U.S. Patent No. 5,666,046 ("the '046 patent"). The petition requests a determination that claims 1-22 of the '046 patent are unpatentable. Tessera Advanced Technologies, Inc. filed its preliminary response on May 2, 2017. The PTAB has not instituted the petition. No hearing date has been set.

U.S. Patent No. 6,043,699

On October 31, 2016, Broadcom Corporation filed with the PTAB a petition for inter partes review of U.S. Patent No. 6,043,699 (“the ’699 patent”). The petition requests a determination that claims 1-19 of the ’699 patent are unpatentable. Tessera Advanced Technologies, Inc. filed its preliminary response on February 10, 2017. The PTAB has not instituted the petition. No hearing date has been set.

U.S. Patent No. 6,232,231
On January 31, 2017, Broadcom Ltd. filed with the PTAB a petition for inter partes review of U.S. Patent No. 6,232,231 (“the ’231 patent”). The petition requests a determination that claims 1-16 of the ’231 patent are unpatentable. Invensas filed its preliminary response May 2, 2017. The PTAB has not instituted the petition. No hearing date has been set.

U.S. Patent No. 6,849,946
On October 18, 2016, Broadcom Ltd., Broadcom Corporation, Avago Technologies, Ltd., and Avago Technologies U.S. Inc. filed with the Patent Trial and Appeal Board (“PTAB”) of the U.S. Patent and Trademark Office (“PTO”) a petition for inter partes review of U.S Patent No. 6,849,946 (“the ’946 patent”). The petition requested a determination that claims 16-20, and 22 of the ’946 patent are unpatentable. On January 27, 2017, Invensas filed a preliminary response to the petition. On March 15, 2017, the PTAB issued a decision denying institution of the petition in its entirety. On April 14, 2017, Broadcom filed a request for rehearing.

U.S. Patent No. 6,278,653
On October 31, 2016, Broadcom Ltd. filed with the PTAB a petition for inter partes review of U.S. Patent No. 6,278,653 (“the ’653 patent”). The petition requests a determination that claims 1-20 of the ’653 patent are unpatentable. Invensas filed its preliminary response on February 10, 2017. On April 26, 2017, the PTAB instituted the petition on Claims 1-20. Invensas’ response to the petition is due July 11, 2017. Broadcom’s reply is due September 26, 2017. The trial is scheduled for December 5, 2017.

U.S. Patent No. 6,465,893

On February 15, 2007, Siliconware Precision Industries Co. Ltd and Siliconware USA Inc. (collectively “SPIL”) filed with the U.S. Patent and Trademark Office (“PTO”) a request for inter partes reexamination relating to U.S Patent No. 6,465,893. On May 4, 2007, the PTO granted the request. On February 15, 2008, the PTO issued an official action, denominated as an action closing prosecution, rejecting a number of patent claims of U.S. Patent No. 6,465,893.

Tessera, Inc. and SPIL appealed. On December 21, 2012, the Patent Trial and Appeal Board (“PTAB”) issued a Decision on Appeal, affirming the Examiner’s previous holding of unpatentability as to some claims, reversing the Examiner’s favorable decision of patentability as to other claims by rejecting those claims on new grounds of rejection, and affirming the Examiner’s favorable decision of patentability as to still other claims. On May 9, 2013, SPIL withdrew from the inter partes reexamination.

On June 25, 2013, the PTAB issued an Order remanding the proceeding to the Examiner for consideration of certain new evidence submitted by Tessera, Inc. On July 17, 2013, the Examiner issued a determination recommending that the PTAB maintain certain grounds of rejection in its December 21, 2012 decision as to certain claims, and recommended that the board withdraw other grounds of rejection as to certain claims.

On November 14, 2014, the PTAB issued a decision affirming the Examiner’s July 17, 2013 determinations, therefore maintaining rejections of certain of the claims subject to reexamination. Tessera, Inc. appealed, and subsequently voluntarily dismissed its appeal. On April 7, 2015, the Court of Appeals issued a mandate to the PTO confirming dismissal of the appeal.

U.S. Patent No. 6,847,107
On February 10, 2017, Broadcom Ltd. filed with the PTAB a petition for inter partes review of U.S. Patent No. 6,847,107. The petition requests a determination that claims 1-8 of the ’107 patent are unpatentable. Tessera, Inc.’s preliminary response is due June 10, 2017. The PTAB has not instituted the petition. No hearing date has been set.

U.S. Patent No. 7,671,474
On December 6, 2016, Broadcom Corporation filed with the PTAB a petition for inter partes review of U.S. Patent No. 7,671,474 (“the ’474 patent”). The petition requests a determination that claims 1-11 of the ’474 patent are unpatentable. Invensas filed its preliminary response on April 6, 2017. The petition is under submission with the PTAB. No hearing date has been set.

U.S. Patent No. 7,809,393
On January 20, 2017, Broadcom Ltd. filed with the PTAB a petition for inter partes review of U.S. Patent No. 7,809,393 (“the ’393 patent”). The petition requests a determination that claims 1-20 of the ’393 patent are unpatentable. Tessera Advanced

Technologies, Inc. filed its preliminary response on May 2, 2017. The PTAB has not instituted the petition. No hearing date has been set.

Japanese Patent No. 5864481

On August 16, 2016, Hisatoshi ODA filed an opposition to Ziptronix's Japanese Patent No. 5864481 with the Japan Patent Office ("JPO"). On October 24, 2016, the JPO mailed a Notification of Reasons for Revocation. Ziptronix filed a responsive argument and a Request for Correction with the JPO on January 19, 2017. On April 3, 2017, the JPO issued a decision rejecting the opposition and concluding that the patent would not be revoked. The matter is now concluded.

Item 1A. Risk Factors

Our revenue is concentrated in a limited number of customers and if we lose any of these customers, or these customers do not pay us, our revenue could decrease substantially.

We earn a significant amount of our revenue from a limited number of customers. For the three months ended March 31, 2017, there were two customers that accounted for 10% or more of total revenue. We expect that a significant portion of our revenue will continue to come from a limited number of customers for the foreseeable future. If we lose any of these customers, or these customers do not pay us, our revenue could decrease substantially. For example, in February of 2017 we announced that we were seeking to relicense a significant semiconductor customer whose license had expired at the end of 2016. In addition, a significant portion of our recurring revenue is the result of structured payment terms in connection with the settlement of litigation matters, including our settlements with Amkor Technology, Inc. and Powertech Technology Inc. If we are unable to replace the revenue from an expiring license or at the end of structured payment terms of a settlement agreement with similar revenue from other customers, our royalty revenue could be adversely impacted as compared to periods prior to such expiration or the end of such payment terms.

From time to time we enter into license agreements that have fixed expiration dates and if, upon expiration or termination, we are unable to renew or replace such license agreements on terms favorable to us, our results of operations could be harmed.

From time to time we enter into license agreements that have fixed expiration dates. Upon expiration of such agreements we need to renew or replace these agreements in order to maintain our revenue base. If we are unable to replace the revenue from an expiring license with similar revenue from other customers, our royalty revenue could be adversely impacted as compared to periods prior to such expiration.

Furthermore, we may not be able to continue licensing customers on terms favorable to us, under the existing terms or at all, which would harm our results of operations. While we have expanded our licensable technology portfolio through internal development and patents purchased from third parties, there is no guarantee that these measures will lead to continued royalties. If we fail to continue to do business with our current licensees, our business would be materially adversely affected.

The success of our licensing business is dependent on the quality of our patent assets and our ability to create and implement new technologies or expand our licensable technology through acquisitions.

We derive a significant portion of our revenue from licenses and royalties including structured settlement payments. The success of our licensing business depends on our ability to continue to develop and acquire high quality patents. We devote significant resources to developing new technologies and to sourcing and acquiring patents to address the evolving needs of the semiconductor and the consumer and communication electronics industries and we must continue to do so in the future to remain competitive. Developments in our technologies are inherently complex, and require long development cycles and a substantial investment before we can determine their commercial viability. Moreover, competition for acquiring high quality patents is intense and there is no assurance that we can continue to acquire such patents on favorable terms. We may not be able to develop and market new or improved technologies in a timely or commercially acceptable fashion. Furthermore, our acquired and developed patents will expire in the future. Our current U.S. issued patents expire at various times through 2035. We need to develop or acquire successful innovations and obtain revenue-generating patents on those innovations before our current patents expire, and our failure to do so would significantly harm our business, financial position, results of operations and cash flows.

The success of the DTS acquisition will depend on our ability to realize the anticipated benefits from integrating the acquired business into our operations.

We may fail to realize the anticipated benefits from our integration of DTS on a timely basis, or at all, for a variety of reasons, including the following:

- difficulties integrating DTS's audio technologies with FotoNation's imaging technologies in a manner that creates technical synergies or that yields new or improved product applications in our targeted markets;
- failure to timely realize our projected cost savings or operating synergies as a result of the DTS acquisition;
- costs and strain on our resources arising from the process of integrating the businesses;
- difficulties integrating the operations and personnel of the acquired business into our operations, organization, and human resources programs, and the risk that we could lose key employees;
- failure to accurately forecast the long-term value or profitability of DTS, including as a result of any failure by us to implement our business strategy for the DTS acquisition;
- adverse pricing trends or inability to achieve economies of scale as a result of the DTS acquisition;
- failure to maintain relationships with existing customers of the acquired business, including customers who may be unfamiliar with us or see themselves as being in conflict with our intellectual property business;
- failure of the market to adopt new products or technologies that we develop as a result of the integration of DTS's business into our existing business; and
- inability to manage growth resulting from the DTS acquisition, including a failure to improve and expand our management systems and financial controls, a failure to expand, train and manage our employee base, or a failure to meet demand and quality standards required by our existing and potential customers and licensees.

Our failure to successfully integrate the acquired business and operations with our existing business and operations may delay or undermine our ability to execute on our business plan for the DTS acquisition, which would adversely affect our business and operations.

The DTS acquisition could expose us to liabilities and claims that we have not previously experienced, and DTS's operations could be subject to litigation risks arising from our patent licensing and enforcement activities.

Our ownership of DTS could increase the risk that DTS becomes subject to claims of infringement of third-party intellectual property rights. We do not have prior experience in audio technologies in which third parties may hold a substantial body of patents and other intellectual property rights. Moreover, the risks of third-party infringement claims could be heightened by our need to engage in enforcement activities with respect to our existing patents, as our existing or potential licensees may seek to assert infringement claims against our DTS business in response to our enforcement activities relating to our existing patents. Competitors of DTS would not be subject to such heightened risk of third-party claims, and such claims could adversely affect the DTS business as well as impair our enforcement ability and licensing revenue.

The DTS acquisition could result in a decision by us to refocus on certain business operations. We may dispose of or discontinue product lines, technologies, assets or operations, whether existing or acquired, if they do not fit into our strategic vision or meet forecasted results.

We believe that DTS's business includes operations that are complementary to both our FotoNation product and licensing operations and our semiconductor packaging, interconnect, and other patent licensing activities. However, our future efforts to rationalize our disparate business operations could result in a decision by us to refocus on certain business operations while disinvesting in others, including certain products, technologies, assets or operations acquired in the DTS acquisition or already existing prior to the DTS acquisition. As our business strategy and product markets continue to evolve, we therefore may dispose, discontinue, or divest product lines or business divisions. Disposing of or discontinuing existing product lines or business divisions provides no assurance that our costs will be reduced or our operating results improved. Furthermore, the disposition or discontinuance of an existing product line or business division entails various risks, including the risk of not being able to obtain a purchaser, or, if obtained, the purchase price may be less than the net asset book value for the product line, or the value that our investors place on it as reflected in our stock price. Other risks include adversely affecting employee morale, and managing the expectations of, and maintaining good relations with, customers of our disposed or discontinued product lines or business divisions, which could prevent us from selling other products to them. We may also incur other significant liabilities and costs associated with our disposal or discontinuance of product lines or business divisions, including employee severance costs, relocation expenses, and impairment of lease obligations and long-lived assets. The effects of such actions may adversely impact our business operations and financial condition.

Our use of cash and substantial long-term borrowing to finance the DTS acquisition could limit future opportunities for our business, and could materially adversely affect our financial condition if we are unable to pay principal or interest on, or to refinance, such indebtedness.

The DTS acquisition was financed with existing cash balances and a newly-incurred, $600 million secured term loan. The combination of reduced cash balances and the incurrence of substantial long-term debt could limit our ability to make future acquisitions, investments and capital expenditures that may be necessary or desirable for the operation or expansion of our business. Moreover, our ability to service the principal and interest payments on such indebtedness will depend on our continuing ability to generate requisite cash flow from our existing and acquired business operations. The terms of the indebtedness include covenants that may limit our operating flexibility and create a risk of default if we are unable to meet financial ratios and other covenant requirements. We may be unable to generate sufficient cash flow to make principal and interest payments, and in any event we may be required to refinance such indebtedness upon its maturity. We may be unable to refinance such indebtedness on favorable terms or at all. A default under, or inability to refinance, our indebtedness could substantially adversely affect the continuing financial viability of the Company, and could lead to insolvency, bankruptcy, and the reduction or elimination of stockholders' equity.

We are currently involved in litigation and administrative proceedings involving some of our patents, and may be involved in other such actions in the future; any invalidation or limitation of the scope of our patents could significantly harm our business.

We are currently involved in litigation involving some of our patents, and may be involved in other such actions in the future. The parties in these legal actions often challenge the validity, scope, enforceability and/or ownership of our patents. In addition, in the past requests for reexamination or review have been filed in the U.S. Patent and Trademark Office ("PTO") with respect to patent claims at issue in one or more of our litigation proceedings, and oppositions have been filed against us with respect to our patents in the European Patent Office ("EPO"). During a reexamination or review proceeding and upon completion of the proceeding, the PTO or EPO may leave a patent in its present form, narrow the scope of the patent, or cancel or find unpatentable some or all of the claims of the patent. For example, the PTO has issued several Official Actions rejecting or maintaining earlier rejections of many of the claims in some of our patents. From time to time we assert these patents and patent claims in litigation and administrative proceedings. If the PTO's adverse rulings are upheld on appeal and some or all of the claims of the patents that are subject to reexamination are canceled, our business may be significantly harmed. In addition, counterparties to our litigation and administrative proceedings may seek and obtain orders to stay these proceedings based on rejections of claims in PTO reexaminations or review proceedings, and other courts or tribunals reviewing our legal actions could make findings adverse to our interests, even if the PTO actions are not final.

We cannot predict the outcome of any of these proceedings or the myriad procedural and substantive motions in these proceedings. If there is an adverse ruling in any legal or administrative proceeding relating to the infringement, validity, enforceability or ownership of any of our patents, or if a court or an administrative body such as the PTO limits the scope of the claims of any of our patents or concludes that they are unpatentable, we could be prevented from enforcing or earning future revenue from those patents, and the likelihood that customers will take new licenses and that current licensees will continue to agree to pay under their existing licenses could be significantly reduced. The resulting reduction in license fees and royalties could significantly harm our business, consolidated financial position, results of operations and cash flows, as well as the trading price of our common stock.

Furthermore, regardless of the merits of any claim, the continued maintenance of these legal and administrative proceedings may result in substantial legal expenses and diverts our management's time and attention away from our other business operations, which could significantly harm our business. Our enforcement proceedings have historically been protracted and complex. The time to resolution and complexity of our litigation, its disproportionate importance to our business compared to other companies, the propensity for delay in civil litigation, and the potential that we may lose particular motions as well as the overall litigation could all cause significant volatility in our stock price and have a material adverse effect on our business and consolidated financial position, results of operations, and cash flows.

The timing of payments under our license and settlement agreements may cause fluctuations in our quarterly or annual results of operations.

From time to time we enter into license and settlement agreements that include pricing or payment terms that result in quarter-to-quarter or year-over-year fluctuations in our revenue, such as volume pricing adjustments. The effect of these terms may also cause our aggregate annual royalty revenue to grow less rapidly than annual growth in overall unit shipments in the applicable end market. Additionally, our customers may fail to pay, delay payment of or underpay what they owe to us under our license and settlement agreements, which may in turn require us to enforce our contractual rights through litigation, resulting in payment amounts and timing different than expected based on the terms of our license and settlement agreements. This also may cause our revenue and cash flows to fluctuate on a quarter-to-quarter or year-over-year basis.

We expect to continue to be involved in material legal proceedings to enforce or protect our intellectual property and contract rights, including material litigation with existing licensees or strategic partners, that could harm our business.

From time to time, our efforts to obtain a reasonable royalty through our sales efforts do not result in the prospective customer agreeing to license our patents or our technology. In certain cases, we become involved in litigation to enforce our intellectual property rights, enforce the terms of our license agreements, determine the validity and scope of the proprietary rights of others, and defend against claims of infringement or invalidity. For example, on May 23, 2016, we filed legal proceedings against Broadcom Corporation and certain of its affiliates, customers, and distributors, alleging infringement of certain of our patents. Our current legal actions, as described in Part II, Item 1 - *Legal Proceedings* , are examples of disputes and litigation that impact our business. If we are not able to reach agreement with customers or potential customers we may be involved in similar legal proceedings in the future, including proceedings to ensure proper and full payment of royalties by licensees under the terms of their license agreements.

These existing and any future legal actions may harm our business. For example, in our legal proceedings against Broadcom and certain of its affiliates and distributors in Germany, the court issued an injunction prohibiting the sale and distribution of infringing products in Germany. If the injunction is reversed or vacated, either on appeal or as a result of other legal proceedings, the Company could be liable for any damages that the respondents suffer in the event that the injunction against them was improperly granted, and such liability could have a material adverse impact on the Company. Although the Company posted bonds as security against such potential damages, the amount of damages is not limited by and could exceed the amounts of the bonds. As another example, legal actions could cause an existing licensee or strategic partner to cease making royalty or other payments to us, or to challenge the validity and enforceability of our patents or the scope of our license agreements, and could significantly damage our relationship with such licensee or strategic partner and, as a result, prevent the adoption of our technologies and intellectual property by such licensee or strategic partner. Litigation could also severely disrupt or shut down the business operations of our licensees or strategic partners, which in turn would significantly harm our ongoing relations with them and cause us to lose royalty revenue. Moreover, the timing and results of any of our legal proceedings are not predictable and may vary in any individual proceeding.

From time to time we identify products that we believe infringe our patents. We seek to license the companies that design, make, use, import, or sell those products but sometimes those companies are unwilling to enter into a license agreement. In those circumstances, we may elect to enforce our patent rights against those products. Litigation stemming from these or other disputes could harm our relationships with other licensees or our ability to gain new customers, who may postpone licensing decisions pending the outcome of the litigation or dispute, or who may, as a result of such litigation, choose not to adopt our technologies. In addition, these legal proceedings could be very expensive and may significantly reduce our profits.

In addition, from time to time our customers with existing license agreements dispute their obligations under such agreements, or we may dispute their reporting of royalties due under such agreements. In the past, licensees have threatened to initiate litigation against us regarding our licensing royalty rate practices including our adherence to licensing on fair, reasonable, and non-discriminatory terms and potential antitrust claims.

The costs associated with legal proceedings are typically high, relatively unpredictable and not completely within our control. These costs may be materially higher than expected, which could adversely affect our operating results and lead to volatility in the price of our common stock. Whether or not determined in our favor or ultimately settled, litigation diverts our managerial, technical, legal and financial resources from our business operations. Furthermore, an adverse decision in any of these legal actions could result in a loss of our proprietary rights, subject us to significant liabilities, require us to seek licenses from others, limit the value of our licensed technology or otherwise negatively impact our stock price or our business and consolidated financial position, results of operations and cash flows.

Even if we prevail in our legal actions, significant contingencies may exist to their settlement and final resolution, including the scope of the liability of each party, our ability to enforce judgments against the parties, the ability and willingness of the parties to make any payments owed or agreed upon, and the dismissal of the legal action by the relevant court, none of which are completely within our control. Parties that may be obligated to pay us royalties or damages could become insolvent or decide to alter their business activities or corporate structure, which could affect our ability to collect royalties or damages from, or enforce a judgment against, such parties.

Recent and proposed changes to U.S. patent laws, rules, and regulations may adversely impact our business.

Our business relies in part on the uniform and historically consistent application of U.S. patent laws, rules, and regulations. There have been numerous recent administrative, legislative, and judicial changes and proposed changes to patent laws and rules that may have a significant impact on our ability to protect our technology and enforce our intellectual property rights. For example, we expect that the U.S. Congress may consider bills relating to patent law that could adversely impact our business depending on the scope of any bills that may ultimately be enacted into law. As another example, the U.S. Supreme Court and lower courts have in recent years issued decisions that are not favorable to patent owners. Some of these changes or potential changes may not be advantageous for us, and may make it more difficult to obtain adequate patent protection, or to enforce our patents against parties using them without a license or payment of royalties. These changes or potential changes could increase the costs and uncertainties surrounding the prosecution of our patent applications and the enforcement of our patent rights, and could have a deleterious effect on our ability to license our patents and, therefore, on the royalties we can collect.

Some of our license agreements may convert to fully paid-up licenses at the expiration of their terms, or upon certain milestones, and we may not receive royalties after that time.

From time to time we enter into license agreements that automatically convert to fully paid-up licenses upon expiration or upon reaching certain milestones. We may not receive further royalties from licensees for any licensed technology under those agreements if they convert to fully paid-up licenses because such licensees will be entitled to continue using some, if not all, of the relevant intellectual property or technology under the terms of the license agreements without further payment, even if relevant patents or technologies are still in effect. If we cannot find another source of revenue to replace the revenue from these license agreements converting to fully paid-up licenses, our results of operations following such conversion would be materially adversely affected.

A significant amount of our royalty revenue comes from a few end markets and products, and our business could be harmed if demand for these market segments or products declines.

A significant portion of our royalty revenue comes from the manufacture and sale of packaged semiconductor chips for DRAM, application-specific standard product semiconductors, application-specific integrated circuits, and memory. In addition, we derive substantial revenue from the incorporation of our technology into mobile devices, consumer products and computer hardware. If demand for semiconductors in any one or a combination of these market segments or products declines, our royalty revenue may be reduced significantly and our business would be harmed.

The long-term success of our business is dependent on a royalty-based business model, which is inherently risky.

The long-term success of our business is dependent on future royalties paid to us by licensees. Royalty payments under our licenses may be based, among other things, upon the number of electrical connections to the semiconductor chip in a package covered by our licensed technology, a percent of net sales, a rate per package, a per unit sold basis or a fixed quarterly amount. We are dependent upon our ability to structure, negotiate and enforce agreements for the determination and payment of royalties, as well as upon our licensees' compliance with their agreements. We face risks inherent in a royalty-based business model, many of which are outside of our control, such as the following:

- the rate of adoption and incorporation of our technology by semiconductor manufacturers, assemblers, manufacturers of consumer and communication electronics, and the automotive and surveillance industry;
- the willingness and ability of materials and equipment suppliers to produce materials and equipment that support our licensed technology, in a quantity sufficient to enable volume manufacturing;
- the ability of our licensees to purchase such materials and equipment on a cost-effective and timely basis;
- the length of the design cycle and the ability of us and our customers to successfully integrate certain of our FotoNation technologies into their integrated circuits;
- the demand for products incorporating semiconductors that use our licensed technology;
- the cyclicality of supply and demand for products using our licensed technology;
- the impact of economic downturns; and
- the timing of receipt of royalty reports may not meet our revenue recognition criteria resulting in fluctuation in our results of operations.

It is difficult for us to verify royalty amounts owed to us under our licensing agreements, and this may cause us to lose revenue.

The terms of our license agreements often require our licensees to document their use of our technology and report related data to us on a quarterly basis. Although our license terms generally give us the right to audit books and records of our licensees to verify this information, audits can be expensive, time consuming, and may not be cost justified based on our understanding of our licensees' businesses, especially given the international nature of our licensees. Our license compliance program audits certain licensees to review the accuracy of the information contained in their royalty reports in an effort to decrease the likelihood that we will not receive the royalty revenue to which we are entitled under the terms of our license agreements, but we cannot give assurances that such audits will be effective to that end.

The markets for semiconductors and related products are highly concentrated, and we may have limited opportunities to license our technologies or sell our products.

The semiconductor industry is highly concentrated in that a small number of semiconductor designers and manufacturers account for a substantial portion of the purchases of semiconductor products generally, including our products and products incorporating our technologies. Continued consolidation in the semiconductor industry may increase this concentration. Accordingly, we expect that licenses of our technologies and sales of our products will be concentrated with a limited number of customers for the foreseeable future. As we develop and acquire new technologies and integrate them into our product line, we will need to establish new relationships to sell these products. Our financial results significantly depend on our success in establishing and maintaining relationships with, and effecting substantial sales to, these customers. Even if we are successful in establishing and maintaining such relationships, our financial results will be dependent in large part on these customers' sales and business results.

We make significant investments in new products and services that may not achieve technological feasibility or profitability or that may limit our revenue growth.

We have made and will continue to make significant investments in research, development, and marketing of new technologies, products and services, including advanced semiconductor packaging. Investments in new technologies are speculative and technological feasibility may not be achieved. Commercial success depends on many factors including demand for innovative technology, availability of materials and equipment, selling price the market is willing to bear, competition and effective licensing or product sales. We may not achieve significant revenue from new product and service investments for a number of years, if at all. Moreover, new technologies, products and services may not be profitable, and even if they are profitable, operating margins for new products and businesses may not be as high as the margins we have experienced historically or originally anticipated.

We may not be able to evolve our audio and imaging technologies, products, and services, or develop new technologies, products, and services, that are acceptable to our customers or the evolving markets, and our customers may use technologies offered at lower cost by others.

The markets for our audio and imaging technologies, products, and services are characterized by:

- rapid technological change and product obsolescence;
- new and improved product introductions;
- changing consumer demands;
- increasingly competitive product landscape; and
- evolving industry standards.

Our future success in our consumer business depends upon our ability to enhance our existing technologies, products, and services and to develop enhanced and acceptable new technologies, products, and services on a timely basis. The development of enhanced and new audio and imaging technologies, products, and services is a complex and uncertain process requiring high levels of innovation, highly-skilled engineering and development personnel, and the accurate anticipation of technological and market trends. We may not be able to accurately identify, develop, market, or support new or enhanced technologies, products, or services on a timely basis, if at all. Furthermore, our new imaging and audio technologies, products, and services may never gain market acceptance, and we may not be able to respond effectively to evolving consumer demands, technological changes, product announcements by competitors, or emerging industry standards. Any failure to respond to these changes or concerns would likely prevent our imaging and audio technologies, products, and services from gaining market acceptance or maintaining market share and could lead to our imaging and audio technologies, products, and services becoming obsolete.

Furthermore, the decision by a party dominant in the entertainment value chain to provide audio technology at very low or no cost could cause our customers, licensees and other manufacturers not to utilize our audio technologies or services in the future. Our customers may choose to use technologies that their own in-house audio engineering teams have developed, or in which they have an interest. Accordingly, our revenue could decline if our customers and licensees choose not to incorporate our audio technologies in their products, or if they sell fewer products incorporating our audio technologies.

Competing technologies may harm our business.

We expect that our technologies will continue to compete with technologies of internal design groups at semiconductor manufacturers, assemblers, electronic component and system manufacturers. The internal design groups of these companies create their own packaging and imaging solutions. If these internal design groups design around our patents or introduce unique solutions superior to our technology, they may not need to license our technology. These groups may design technology that is less expensive to implement or that enables products with higher performance or additional features. Many of these groups have substantially greater resources, greater financial strength and lower cost structures which may allow them to undercut our price. They also have the inherent advantage of access to internal corporate strategies, technology roadmaps and technical information. As a result, they may be able to bring alternative solutions to market more easily and quickly.

DTS audio technologies compete with other providers of audio products and services, with Dolby Laboratories as the primary competitor in high-definition audio processing. Dolby Laboratories enjoys certain competitive advantages in selling its digital multi-channel audio technology, having introduced such technology before we did, and having achieved mandatory standard status in product categories that we have not, including terrestrial digital TV broadcasts in the United States.

For our embedded image processing technologies such as Face Detection and our other FaceTools products, our offerings compete with other image processing software vendors such as ArcSoft, Inc. as well as internal design groups of our customers providing similar technologies by employing different approaches.

In the future, our licensed technologies may also compete with other technologies that emerge. These technologies may be less expensive and provide higher or additional performance. Companies with these competing technologies may also have greater resources. Technological change could render our technologies obsolete, and new, competitive technologies could emerge that achieve broad adoption and adversely affect the use of our technologies and intellectual property.

If we do not successfully further develop and commercialize the technologies we acquire, or cultivate strategic relationships that expand our licensable portfolio, our competitive position could be harmed and our operating results adversely affected.

We also attempt to expand our licensable technology portfolio and technical expertise by further developing and acquiring new technologies or developing strategic relationships with others. These strategic relationships may include the right for us to sublicense technology and intellectual property to others. However, we may not be able to acquire or obtain rights to licensable technology and intellectual property in a timely manner or upon commercially reasonable terms. Even if we do acquire such rights, some of the technologies we invest in may be commercially unproven and may not be adopted or accepted by the industry. Moreover, our research and development efforts, and acquisitions and strategic relationships, may be futile if we do not accurately predict the future needs of the semiconductor, consumer and communication electronics, and consumer imaging and audio processing industries. Our failure to acquire new technologies that are commercially viable in the semiconductor, consumer and communication electronics, and consumer imaging and audio processing industries could significantly harm our business, financial position, results of operations and cash flows.

The way we integrate internally developed and acquired technologies into our products and licensing programs may not be accepted by customers.

We have devoted, and expect to continue to devote, considerable time and resources to developing, acquiring and integrating new and existing technologies into our products and licensing programs. However, if customers do not accept the way we have integrated our technologies, they may adopt competing solutions. In addition, as we introduce new products or licensing programs, we cannot predict with certainty if and when our customers will transition to those new products or licensing programs. Moreover, with respect to certain of our imaging technologies, even after we have signed a license agreement with a customer, we will often not see significant revenue from that customer until after such technologies have been successfully designed into the customer's integrated circuits, which can take 18 months or longer. If customers fail to accept new or upgraded products or licensing programs incorporating our technologies, our financial position, results of operations and cash flows could be adversely impacted.

If we fail to protect and enforce our intellectual property rights, contract rights, and our confidential information, our business will suffer.

We rely primarily on a combination of license, development and nondisclosure agreements and other contractual provisions, as well as patent, trademark, trade secret and copyright laws, to protect our technology and intellectual property. If we fail to protect our technology, intellectual property, or contract rights, our licensees and others may seek to use our technology and intellectual property without the payment of license fees and royalties, which could weaken our competitive position, reduce our operating results and increase the likelihood of costly litigation. The growth of our business depends in large part on our ability to secure intellectual property rights in a timely manner, our ability to convince third parties of the applicability of our intellectual property rights to their products, and our ability to enforce our intellectual property rights.

In certain instances, we attempt to obtain patent protection for portions of our technology, and our license agreements typically include both issued patents and pending patent applications. If we fail to obtain patents in a timely manner or if the patents issued to us do not cover all of the inventions disclosed in our patent applications, others could use portions of our technology and intellectual property without the payment of license fees and royalties. For example, our business may suffer if we are unable to obtain patent protection in a timely manner from the PTO due to processing delays resulting from examiner turnover and a continuing backlog of patent applications.

We also rely on trade secret laws rather than patent laws to protect other portions of our proprietary technology. However, trade secrets can be difficult to protect. The misappropriation of our trade secrets or other proprietary information could seriously harm our business. We protect our proprietary technology and processes, in part, through confidentiality agreements with our employees, consultants, suppliers and customers. We cannot be certain that these contracts have not been and will not be breached, that we will be able to timely detect unauthorized use or transfer of our technology and intellectual property, that we will have adequate remedies for any breach, or that our trade secrets will not otherwise become known or be independently discovered by competitors. If we fail to use adequate mechanisms to protect our technology and intellectual property, or if a court fails to enforce our intellectual property rights, our business will suffer. We cannot be certain that these protection mechanisms can be successfully asserted in the future or will not be invalidated or challenged.

Further, the laws and enforcement regimes of certain countries do not protect our technology and intellectual property to the same extent as do the laws and enforcement regimes of the U.S. In certain jurisdictions we may be unable to protect our technology and intellectual property adequately against unauthorized use, which could adversely affect our business.

Our business may suffer if third parties assert that we violate their intellectual property rights.

Third parties may claim that either we or our customers are infringing upon their intellectual property rights. Even if we believe that such claims are without merit, they can be time-consuming and costly to defend against and will divert management's attention and resources away from our business. Furthermore, third parties making such claims may be able to obtain injunctive or other equitable relief that could block our ability to further develop or commercialize some or all of our products or services in the U.S. and abroad. Claims of intellectual property infringement also might require us to enter into costly settlement or license agreements or pay costly damage awards. Even if we have an agreement that provides for a third party to indemnify us against such costs, the indemnifying party may be unable to perform its contractual obligations under the agreement. If we cannot or do not license the allegedly infringed intellectual property on reasonable terms, or need to substitute similar technology from another source, our business, financial position, results of operations and cash flows could suffer.

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

We generally incur significant marketing, legal and sales expenses prior to entering into our license agreements, generating a license fee and establishing a royalty stream from each licensee. The length of time it takes to establish a new licensing relationship, and/or for our customers to incorporate certain imaging technologies in their integrated circuits, can be 18 months or longer. As such, we may incur significant losses in any particular period before any associated revenue stream begins.

Our business incurs significant reverse engineering expenditures on products of potential licensees in order to prepare sales and marketing collateral. We employ intensive marketing and sales efforts to educate licensees, potential licensees and original equipment manufacturers about the benefits of our technologies. In addition, even if these companies adopt our technologies, they must devote significant resources to integrate fully our technologies into their operations. If our marketing and sales efforts are unsuccessful, then we may not be able to achieve widespread acceptance of our technology. In addition, ongoing litigation could impact our ability to gain new licensees which could have an adverse effect on our financial condition, results of operations and cash flows.

If our licensees delay, refuse to or are unable to make payments to us due to financial difficulties or otherwise, or shift their licensed products to other companies to lower their royalties to us, our operating results and cash flows could be adversely affected.

A number of companies in the semiconductor and consumer electronics industries face severe financial difficulties from time to time. As a result, there have been recent bankruptcies and restructuring of companies in these industries. Our licensees may face similar financial difficulties which may result in their inability to make payments to us in a timely manner, or at all. In addition, we have had a history of, and we may in the future experience, customers that delay or refuse to make payments owed to us under license or settlement agreements. Our licensees may also merge with or may shift the manufacture of licensed products to companies that are not currently licensees to us. This could make the collection process complex and difficult, which could adversely impact our business, financial condition, results of operations and cash flows.

We have in the past recorded, and may in the future record, significant valuation allowances on our deferred tax assets, and the recording and release of such allowances may have a material impact on our results of operations and cause fluctuations in our stock price.

The need for a valuation allowance requires an assessment of both positive and negative evidence when determining whether it is more likely than not that deferred tax assets are recoverable; such assessment is required on a jurisdiction-by-jurisdiction basis. In making such assessment, significant weight is given to evidence that can be objectively verified. As such, we determined that no valuation allowance is required on the majority of our U.S. federal deferred tax assets. In the future, we may release valuation allowance and recognize deferred state tax assets or deferred tax assets of other foreign subsidiaries depending on achieving profitability in relevant jurisdictions. We continue to monitor the likelihood that we will be able to recover our deferred tax assets, including those for which a valuation allowance is still recorded. There can be no assurance that the Company will generate profits in future periods enabling it to fully realize its deferred tax. The timing of recording a valuation allowance or the reversal of such valuation allowance is subject to objective and subjective factors that cannot be readily predicted in advance. Both the establishment of a valuation allowance and the reversal of a previously recorded valuation allowance may have a material impact on our quarterly financial results, which may lead to fluctuation in the value of our stock.

Failure by the semiconductor industry to adopt our technology for the next generation high performance DRAM chips, and in chips used in consumer electronics, would significantly harm our business.

To date, our technology has been used by several companies for high performance DRAM chips. For example, packaging using our technology is used for DDR3 and DDR4 DRAM and we currently have licensees who are paying royalties for DRAM chips in advanced packages.

DRAM manufacturers are also currently developing next-generation high performance DRAM chips to meet increasing speed and performance requirements of electronic products. We believe that these next-generation, high performance DRAM chips will require advanced technologies.

We anticipate that royalties from shipments of these next-generation, high performance DRAM chips using our technology may account for a significant percentage of our future revenue. If semiconductor manufacturers do not continue to use our technology for the next-generation of high performance DRAM chips and find viable alternative technologies for use with next-generation high performance DRAM chips, or if we do not receive royalties from the next-generation, high performance DRAM chips that use our technology, our future revenue could be adversely affected.

Our technology may be too expensive for certain next-generation high performance DRAM manufacturers, which could significantly reduce the adoption rate of our technology in next-generation high performance DRAM chips. Even if our technology is selected for at least some of these next-generation high performance DRAM chips, there could be delays in the introduction of products utilizing these chips that could materially affect the amount and timing of any royalty payments that we receive. Other factors that could affect adoption of our technology for next-generation high performance DRAM products include delays or shortages of materials and equipment and the availability of testing services.

Similarly, our audio licensing revenue from consumer electronics product manufacturers depends, in large part, upon the availability of ICs that implement our technologies. IC manufacturers incorporate our audio technologies into these ICs, which are then incorporated into consumer electronics products. We do not manufacture these ICs, but rather depend upon IC manufacturers to develop, produce and then sell them to licensed consumer electronics product manufacturers. We do not control the IC manufacturers' decisions whether or not to incorporate our technologies into their ICs, and we do not control their product development or commercialization efforts. If these IC manufacturers are unable or unwilling to implement our technologies into their ICs, production is delayed, or if they sell fewer ICs incorporating our technologies, our operating results could be adversely affected.

The investment of our cash, cash equivalents and investments in marketable debt securities are subject to risks which may cause losses and affect the liquidity of these investments.

At March 31, 2017, we held approximately $60.5 million in cash and cash equivalents and $53.1 million in short-term investments. These investments include various financial securities such as corporate bonds and notes, municipal bonds and notes, commercial paper, treasury and agency notes and bills, and money market funds. Although the Company invests in high quality securities, ongoing financial events have at times adversely impacted the general credit, liquidity, market and interest rates for these and other types of debt securities. Changes in monetary policy by the Federal Reserve, government fiscal policies, and global economic and market conditions may adversely affect the value of our investment portfolio. While we have historically held our investments to maturity, we may in the future have a need to sell investments before their maturity dates, which could result in losses on the sale of those investments. For example, the DTS acquisition resulted in us liquidating a significant portion of our investments. The financial market and monetary risks associated with our investment portfolio may have a material adverse effect on our financial condition, results of operations and cash flows.

Our intellectual property business operates in a highly cyclical industry, which is subject to significant downturns.

The semiconductor industry in which our intellectual property business operates has historically been cyclical and is characterized by wide fluctuations in product supply and demand. From time to time, this industry has experienced significant downturns, often in connection with, or in anticipation of, declining economic conditions, maturing product and technology cycles, and excess inventories. This cyclicality could cause our operating results to decline from one period to the next. Our business depends, in part, upon the volume of production by our licensees, which, in turn, depends upon the current and anticipated market demand for semiconductors and products that use semiconductors. Semiconductor manufacturers and package assembly companies generally sharply curtail their spending during industry downturns, and historically have lowered their spending more than the decline in their revenue. As a result, our financial results have been, and will continue to be, impacted by the cyclicality of the electronics industry. If we are unable to control our expenses adequately in response to lower revenue from our licensees and service customers in such downturns, our results of operations and cash flows will be materially and adversely impacted.

If we are unable to maintain a sufficient amount of content released in the DTS audio format, demand for the technologies, products, and services that we offer to consumer electronics product manufacturers may significantly decline, which would adversely impact our business and prospects.

We expect to derive a significant percentage of our revenue from the technologies, products, and services that we offer to manufacturers of consumer electronics products. We believe that demand for our audio technologies in growing markets for multi-channel and/or high resolution audio, including TVs, tablets, mobile phones, video game consoles, automobiles, and soundbars, will be based on the amount, quality, and popularity of content (such as movies, TV shows, music, and games) either released in the DTS audio format or capable of being coded and played in the DTS format. In particular, our ability to penetrate the growing markets in the network-connected space depends on the presence of streaming and downloadable content released in the DTS audio format. We generally do not have contracts that require providers of streaming and downloadable content to develop and release such content in a DTS audio format. Accordingly, our revenue could decline if these providers elect not to incorporate DTS audio into their content or if they sell less content that incorporates DTS audio.

In addition, we may not be successful in maintaining existing relationships or developing new relationships with other existing or new content providers. As a result, we cannot assure you that a sufficient amount of content will be released in a DTS audio format to ensure that manufacturers continue offering DTS decoders in the consumer electronics products that they sell.

Demand for DTS's HD Radio technology may be insufficient to sustain projected growth.

Demand for and adoption of HD Radio technology may not be sufficient for us to continue to increase the number of licensees of our HD Radio system, which include IC manufacturers, manufacturers of broadcast transmission equipment, consumer electronics products manufacturers, component manufacturers, data service providers, manufacturers of specialized and test equipment and radio broadcasters.

Among other things, continuing and increased consumer acceptance of HD Radio technology will depend upon:

- the number of radio stations broadcasting digitally using HD Radio technology;
- the willingness of automobile manufacturers to include HD Radio receivers in their vehicles;
- the willingness of manufacturers to incorporate HD Radio technology into their products;
- the cost and availability of HD Radio enabled products; and
- the marketing and pricing strategies that we employ and that are employed by our licensees and retailers.

If demand for HD Radio technology does not continue to increase as expected, we may not be able to increase our DTS revenue as projected.

DTS's HD Radio technology may not remain competitive if we do not respond to changes in technology, standards and services that affect the radio broadcasting industry.

The radio broadcasting industry is subject to technological change, evolving industry standards, regulatory restrictions and the emergence of other media technologies and services. Our HD Radio technology may not gain market acceptance over these other technologies. Various other audio technologies and services that have been developed and introduced include:

- internet streaming, cable-based audio programming and other digital audio broadcast formats;
- satellite delivered digital audio radio services that offer numerous programming channels;
- other digital radio competitors, such as Digital Radio Mondiale, or DAB; and
- growth in use of portable devices for storage and playback of audio content.

Competition arising from these or other technologies or potential regulatory change may have an adverse effect on the radio broadcasting industry or on our company and our financial condition and results of operations.

If we are unable to further penetrate the streaming and downloadable content delivery markets and adapt our technologies for those markets, our revenue and ability to grow our DTS business could be adversely impacted.

Video and audio content has historically been purchased and consumed primarily via optical disc based media. However, the growth of the internet and network-connected device usage, along with the rapid advancement of online and mobile content delivery has resulted in download and streaming services becoming mainstream with consumers in various parts of the world. We expect the shift away from optical disc based media to streaming and downloadable content consumption to continue. If we fail to continue to penetrate the streaming and downloadable content delivery market, our audio business could suffer.

The services that provide content from the cloud are not generally governed by international or national standards and are thus free to choose any media format(s) to deliver their products and services. This freedom of choice on the part of online content providers could limit our ability to grow if such content providers do not incorporate our technologies into their services, which could affect demand for our technologies.

Furthermore, our inclusion in mobile and other network-connected devices may be less profitable for us than optical disc players. The online and mobile markets are characterized by intense competition, evolving industry standards and business and distribution models, disruptive software and hardware technology developments, frequent new product and service introductions, short product and service life cycles, and price sensitivity on the part of consumers, all of which may result in downward pressure on pricing. If we are unable to adequately and timely respond to the foregoing, our business and operating results could be adversely affected.

Changes in financial accounting or taxation standards, rules, practices or interpretations may cause adverse unexpected revenue and expense fluctuations which may impact our reported results of operations.

We prepare our consolidated financial statements in accordance with U.S. GAAP. These principles are subject to interpretations by the SEC and various accounting bodies. In addition, we are subject to various taxation rules in many jurisdictions. The existing taxation rules are generally complex, frequently changing and subject to interpretation. Changes to taxation rules, changes to financial accounting standards, or any changes to the interpretations of these standards or rules may adversely affect our reported financial results or the way in which we conduct business. Recent accounting pronouncements and their estimated potential impact on our business are addressed in Note 2 - *"Summary of Significant Accounting Policies"* in the Notes to Condensed Consolidated Financial Statements.

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09"), and since May 2014 the FASB has issued amendments to this new guidance, which collectively provides guidance for revenue recognition. ASU 2014-09 is effective for the Company beginning January 1, 2018 and, at that time, we plan to adopt the new standard under the modified retrospective approach. Under the new standard, the current practice of many licensing companies of reporting revenue from per-unit royalty based agreements one quarter in arrears would no longer be accepted and instead companies will be expected to estimate royalty-based revenue. This guidance will significantly impact our revenue recognition. First, we will no longer be allowed to follow our current practice of recording per unit license revenue on a quarter lag basis, a practice precipitated by the lack of reliable estimates for such revenue. Second, we may be required to record all or a significant majority of revenue under our fixed fee and minimum guarantee license agreements when such agreements are entered into rather than recording them over time as is our typical practice today. While the changes in revenue recognition do not impact our cash flows, the impact on our Statement of Operations under the new accounting standard may impact how investors perceive our business which could materially impact the value of our common stock.

The international nature of our business exposes us to financial and regulatory risks that may have a negative impact on our consolidated financial position, results of operations and cash flows, and we may have difficulty protecting our intellectual property in some foreign countries.

We derive a significant portion of our revenue from licensees headquartered outside of the U.S. We also have operations outside of the U.S., including our research and development facilities in Ireland, Romania and the United Kingdom, to design, develop, test or market certain technologies. International operations are subject to a number of risks, including but not limited to the following:

- changes in trade protection laws, policies and measures, and other regulatory requirements affecting trade and investment;
- regulatory requirements and prohibitions that differ between jurisdictions;
- laws and business practices favoring local companies;
- withholding tax obligations on license revenue that we may not be able to offset fully against our U.S. tax obligations, including the further risk that foreign tax authorities may re-characterize license fees or increase tax rates, which could result in increased tax withholdings and penalties;
- security concerns, including crime, political instability, terrorist activity, armed conflict and civil or military unrest;
- differing employment practices, labor issues and business and cultural factors;
- less effective protection of intellectual property than is afforded to us in the U.S. or other developed countries; and
- limited infrastructure and disruptions, such as large-scale outages or interruptions of service from utilities or telecommunications providers.

Our intellectual property is also used in a large number of foreign countries. There are many countries in which we currently have no issued patents. In addition, effective intellectual property enforcement may be unavailable or limited in some foreign countries. It may be difficult for us to protect our intellectual property from misuse or infringement by other companies in these countries. We expect this to become a greater problem for us as our licensees increase their manufacturing and sales in countries which provide less protection for intellectual property. Our inability to enforce our intellectual property rights in some countries may harm our business, financial position, results of operations and cash flows.

Our business and operating results may be harmed if we are unable to manage growth in our business, if we undertake any further restructuring activities or if we dispose of a business division or dispose of or discontinue any product lines.

We have in the past expanded our operations, domestically and internationally, and may continue to do so through both internal growth and acquisitions. In December 2016, we acquired DTS, resulting in our headcount more than doubling year over year. If our growth continues, it may place a significant strain on our management team and on our operational and financial systems, procedures, and controls. Our future success will depend, in part, upon the ability of our management team to manage any growth effectively, requiring our management to:

- recruit, hire, and train additional personnel;
- implement and improve our operational and financial systems, procedures, and controls;
- maintain our cost structure at an appropriate level based on the revenue and cash we forecast and generate;
- manage multiple concurrent development projects; and
- manage operations in multiple time zones with different cultures and languages.

If we are unable to effectively manage our growth or we are unsuccessful in recruiting and retaining personnel, our business and operating results will be harmed. Moreover, if our acquisitions or other growth initiatives do not prove to be profitable, we may undertake to restructure our business, including the disposition of a business division, or the disposition or discontinuance of a product line, as we have done in previous years. Any restructuring, disposition or discontinuance would require substantial management time and attention and may divert management from other important work, and may result in significant liabilities and costs as described earlier.

Disputes regarding our intellectual property may require us to indemnify certain licensees, the cost of which could adversely affect our business operations and financial condition.

While we generally do not indemnify our licensees, some of our license agreements in our image enhancement and audio processing business provide limited indemnities for certain actions brought by third parties against our licensees, and some require us to provide technical support and information to a licensee that is involved in litigation for using our technology. Our indemnity and support obligations could result in substantial expenses. In addition to the time and expense required for us to indemnify or supply such support to our licensees, a licensee's development, marketing and sales of licensed image enhancement products could be severely disrupted or shut down as a result of litigation, which in turn could have a material adverse effect on our business operations, consolidated financial position, results of operations and cash flows.

If we lose any of our key personnel or are unable to attract, train and retain qualified personnel, we may not be able to execute our business strategy effectively.

Our success depends, in large part, on the continued contributions of our key management, engineering, sales, marketing, intellectual property, legal and finance personnel, many of whom are highly skilled and would be difficult to replace. None of our senior management, key technical personnel or key sales personnel are bound by written employment contracts to remain with us for a specified period. In addition, we do not currently maintain key-person life insurance covering our key personnel or have restrictions on their post-employment ability to solicit our employees, contractors or customers if key personnel voluntarily terminate their employment. The loss of any of our senior management or other key personnel could harm our ability to implement our business strategy and respond to the rapidly changing market conditions in which we operate. Our future success will depend to a significant extent on the ability of these executives to effectively drive execution of our business strategy, and on the ability of our management team to work together effectively.

Our success also depends on our ability to attract, train and retain highly skilled managerial, engineering, sales, marketing, legal and finance personnel and on the abilities of new personnel to function effectively, both individually and as a group. Competition for qualified senior employees can be intense. We have also experienced difficulty in hiring and retaining highly skilled engineers with appropriate qualifications to support our growth and expansion. Further, we must train our new personnel, especially our technical support personnel, to respond to and support our licensees and customers. If we fail to do this, it could lead to dissatisfaction among our licensees or customers, which could slow our growth or result in a loss of business.

Our business operations could suffer in the event of information technology system failures or security breaches.

Despite system redundancy and the implementation of security measures within our internal and external information technology and networking systems, our information technology systems may be subject to security breaches, damages from computer viruses, natural disasters, terrorism, and telecommunication failures. Any system failure or security breach could cause interruptions in our operations in addition to the possibility of losing proprietary information and trade secrets. To the extent that any disruption or security breach results in inappropriate disclosure of our confidential information, we may incur liability or additional costs to remedy the damages caused by these disruptions or security breaches.

Decreased effectiveness of share-based compensation could adversely affect our ability to attract and retain employees.

We have historically used stock options, restricted stock grants and other forms of stock-based compensation as key components of employee compensation in order to align employees' interests with the interests of our stockholders, encourage employee retention and provide competitive compensation and benefit packages. We incur significant compensation costs associated with our stock-based compensation programs. Failure to obtain stockholder approval of equity compensation plans or changes to the plans could make it harder or more expensive for us to grant stock-based compensation to employees in the future. As a result, we may find it difficult to attract, retain and motivate employees, and any such difficulty could have a materially adverse impact on our business.

Failure to comply with environmental regulations could harm our business.

We use hazardous substances in the manufacturing and testing of prototype products and in the development of technologies in our research and development laboratories. We are subject to a variety of local, state and federal regulations relating to the storage, discharge, handling, emission, generation, manufacture and disposal of toxic or other hazardous substances. Our past, present or future failure to comply with environmental regulations could result in the imposition of substantial fines, suspension of production, and alteration of our manufacturing processes or cessation of operations. Compliance with such regulations could require us to acquire expensive remediation equipment or to incur other substantial expenses. Any failure to control the use, disposal, removal or storage of, or to adequately restrict the discharge of, or assist in the cleanup of, hazardous or toxic substances, could subject us to significant liabilities, including joint and several liabilities under certain statutes. The imposition of such liabilities could significantly harm our business, financial position, results of operations and cash flows.

Our effective tax rate depends on our ability to secure the tax benefits of our international corporate structure, on the application of the tax laws of various jurisdictions and on how we operate our business.

Our international corporate structure and intercompany arrangements, including the manner in which we market, develop, use and license our intellectual property, fund our operations and structure transactions with our international subsidiaries, may result in the increase or reduction of our worldwide effective tax rate. Such international corporate structure and intercompany arrangements are subject to examination by the tax authorities of the jurisdictions in which we operate, including the United States. The application of the tax laws of these jurisdictions to our international business activities is subject to interpretation and depends on our ability to operate our business in a manner consistent with our corporate structure and intercompany arrangements. Moreover, such tax laws are subject to change. Tax authorities may disagree with our intercompany transfer pricing arrangements, including our transfer of intangibles, or determine that the manner in which we operate our business does not achieve the intended tax consequences. Additionally, future changes in the tax laws (such as proposed legislation to reform U.S. taxation of international business activities) may have an adverse effect on our international corporate structure and operations. The result of an adverse determination of any of the above items could increase our worldwide effective tax rate and harm our financial position and results of operations.

We have business operations located in places that are subject to natural disasters.

Our business operations depend on our ability to maintain and protect our facilities, computer systems and personnel. Our corporate headquarters are located in the San Francisco Bay Area and we have engineering activities in several locations throughout California, which in the past have experienced severe earthquakes. We do not carry earthquake insurance for any of our facilities except for our office in Calabasas, California. Earthquakes or other natural disasters could severely disrupt our operations, and have a material adverse effect on our business, results of operations, financial condition and prospects.

We have made and may continue to make or to pursue acquisitions which could divert management's attention, cause ownership dilution to our stockholders, or be difficult to integrate, which may adversely affect our financial results.

We have made several acquisitions, and it is our current plan to continue to acquire companies, assets, patents and technologies that we believe are strategic to our future business. For example, in the third quarter of 2015, we acquired Ziptronix, Inc. for approximately $39 million. Further, in the fourth quarter of 2016, we acquired DTS, Inc., for approximately $955 million. Investigating businesses, assets, patents or technologies and integrating newly acquired businesses, assets, patents or technologies could put a strain on our resources, could be costly and time consuming, and might not be successful. Such activities divert our management's attention from other business concerns. In addition, we might lose key employees while integrating new organizations or operations. Acquisitions could also result in customer dissatisfaction, performance problems with an acquired company or technology, potentially dilutive issuances of equity securities or the incurrence of debt, the assumption or incurrence of contingent liabilities, impairment charges related to goodwill and possible impairment charges related to other intangible assets or other unanticipated events or circumstances, any of which could harm our business.

Our plans to integrate and expand upon research and development programs and technologies obtained through acquisitions may result in products or technologies that are not adopted by the market. The market may adopt competitive solutions to our products or technologies. Consequently, we might not be successful in integrating any acquired businesses, assets, products or technologies, and might not achieve anticipated revenue and cost benefits.

There are numerous risks associated with our acquisitions of businesses, technologies and patents.

We have made a number of acquisitions of businesses, technologies and patents in recent years. These acquisitions are subject to a number of risks, including but not limited to the following:

- these acquisitions could fail to produce anticipated benefits, or could have other adverse effects that we currently do not foresee. As a result, these acquisitions could result in a reduction of net income per share as compared to the net income per share we would have achieved if these acquisitions had not occurred. We may also be required to recognize impairment charges of acquired assets or goodwill, and if we decide to restructure acquired businesses, we may incur other restructuring charges;
- the purchase price for each acquisition is determined based on significant judgment on factors such as projected cash flow, quality and availability of the business, technology or patent. In addition, if other companies have similar interests in the same business, technology or patent, our ability to negotiate these acquisitions at favorable terms may be limited and the purchase price may be artificially inflated;
- following completion of these acquisitions, we may uncover additional liabilities, patent validity, infringement or enforcement issues or unforeseen expenses not discovered during our diligence process;

- any such additional liabilities, patent validity, infringement or enforcement issues or expenses could result in significant unanticipated costs not originally estimated, such as impairment charges of acquired assets and goodwill, and may harm our financial results;
- the integration of technologies, patent assets and personnel, if any, will be a time consuming and expensive process that may disrupt our operations if it is not completed in a timely and efficient manner. If our integration efforts are not successful, our results of operations could be harmed, employee morale could decline, key employees could leave, and customer relations could be damaged. In addition, we may not achieve anticipated synergies or other benefits from any of these acquisitions;
- we have incurred substantial direct transaction and integration costs as a result of past acquisitions. In future acquisitions, the total direct transaction costs and the costs of integration may exceed our expectations;
- sales by the acquired businesses may be subject to different accounting treatment than our existing businesses, especially related to the recognition of revenue. This may lead to the loss or deferral of revenue under current and emerging accounting standards;
- there may be a significant time lag between acquiring patent assets and recognizing revenue from those patent assets. During that time lag, material costs are likely to be incurred in preparing licensing or litigation efforts and amortization of acquired patent assets that would have a negative effect on our results of operations, cash flows and financial position;
- we may require external financing that is dilutive or presents risks of debt; and
- we are required to estimate and record fair values of contingent assets, liabilities, deferred tax assets and liabilities at the time of an acquisition. Even though these estimates are based on management's best judgment, the actual results may differ. Under the current accounting guidance, differences between actual results and management's estimate could cause our operating results to fluctuate or could adversely affect our results of operations.

If our amortizable intangible assets (such as acquired patents) become impaired, we may be required to record a significant charge to earnings.

In addition to internal development, we intend to broaden our intellectual property portfolio through strategic relationships and acquisitions such as the acquisitions of Ziptronix, Inc. in the third quarter of 2015, and DTS, Inc. in the fourth quarter of 2016. We believe these strategic relationships and acquisitions will enhance the competitiveness and size of our current businesses and provide diversification into markets and technologies that complement our current businesses. Future acquisitions could be in the form of asset purchases, equity investments, or business combinations. As a result, we may have intangible assets which are amortized over their estimated useful lives. We review our amortizable intangible assets (such as our patent portfolio) for impairment when events or changes in circumstances indicate the carrying value may not be recoverable or the useful life is shorter than originally estimated. Factors that may be considered a change in circumstances indicating that the carrying value of our amortizable or other intangible assets may not be recoverable include a decline in future cash flows, fluctuations in market capitalization, slower growth rates in our industry or slower than anticipated adoption of our products by our customers. As we continue to review for factors that may affect our business which may not be in our control, we may be required to record a significant charge to earnings in our financial statements during the period in which any impairment of our amortizable intangible assets or equity investments is determined, resulting in an adverse impact on our business, financial position, or results of operations.

Current and future governmental and industry standards may significantly limit our business opportunities.

Technology standards are important in the audio and video industry as they help to assure compatibility across a system or series of products. Generally, standards adoption occurs on either a mandatory basis, requiring a particular technology to be available in a particular product or medium, or an optional basis, meaning that a particular technology may be, but is not required to be, utilized. If standards are re-examined or a new standard is developed in which we are not included, our revenue growth in that area of our business could be significantly lower than expected.

As new technologies and entertainment media emerge, new standards relating to these technologies or media may develop. New standards may also emerge in existing markets that are currently characterized by competing formats, such as the market for PCs. We may not be successful in our efforts to include our technology in any such standards.

Changes in or failure to comply with FCC requirements could adversely impact our HD Radio revenue.

In October 2002, the Federal Communications Commission, or the FCC, selected DTS's "In-Band, On-Channel ("IBOC") technology, also known as "HD Radio technology," as the exclusive technology for introduction of terrestrial digital operations by AM and FM radio stations. In the United States, the FCC regulates the broadcast radio industry, interprets laws enacted by Congress and establishes and enforces regulations governing radio broadcasting. It is unclear what rules and regulations the

FCC may adopt regarding digital audio broadcasting and what effect, if any, such rules and regulations will have on our DTS business, the operations of stations using our HD Radio technology or consumer electronics manufacturers. Any additional rules and regulations imposed on digital audio broadcasting could adversely impact the attractiveness of HD Radio technology and negatively impact our business. Also, non-compliance by us, or by radio stations offering HD Radio broadcasts, with any FCC requirements or conditions could result in fines, additional license conditions, license revocation or other detrimental FCC actions.

Our licensing of industry standard technologies can be subject to limitations that could adversely affect our business and prospects.

When a standards-setting body adopts our technologies as explicit industry standards, we generally must agree to license such technologies on a fair, reasonable and non-discriminatory basis, which we believe means that we treat similarly situated licensees similarly. In these situations, we may be required to limit the royalty rates we charge for these technologies, which could adversely affect our business. Furthermore, we may have limited control over whom we license such technologies to, and may be unable to restrict many terms of the license. From time to time, we may be subject to claims that our licenses of our industry standard technologies may not conform to the requirements of the standards-setting body. Claimants in such cases could seek to restrict or change our licensing practices or our ability to license our technologies in ways that could harm our reputation and otherwise materially and adversely affect our business, operating results and prospects.

Our financial and operating results may vary, which may cause the price of our common stock to decline.

Our quarterly operating results have fluctuated in the past and are likely to do so in the future. Because our operating results are difficult to predict, one should not rely on quarterly or annual comparisons of our results of operations as an indication of our future performance. Factors that could cause our operating results to fluctuate during any period or that could adversely affect our ability to achieve our strategic objectives include those listed in this " *Risk Factors* " section of this report and the following:

- the timing of, and compliance with license or service agreements and the terms and conditions for payment to us of license or service fees under these agreements;
- fluctuations in our royalties caused by the pricing terms of certain of our license agreements;
- the amount of our product and service revenue;
- changes in the level of our operating expenses;
- delays in our introduction of new technologies or market acceptance of these new technologies through new license agreements;
- our ability to protect or enforce our intellectual property rights or the terms of our agreements;
- legal proceedings affecting our patents, patent applications or license agreements;
- the timing of the introduction by others of competing technologies;
- changes in demand for semiconductor chips in the specific end markets in which we concentrate;
- changes in demand for camera-enabled devices including cell phones, security systems and personal computers;
- the timing of the conclusion of license agreements;
- the length of time it takes to establish new licensing arrangements;
- meeting the requirements for revenue recognition under generally accepted accounting principles;
- changes in generally accepted accounting principles including new accounting standards which may materially affect our revenue recognition; and
- cyclical fluctuations in semiconductor markets generally.

Due to fluctuations in our operating results, reports from market and security analysts, litigation-related developments, and other factors, the price at which our common stock will trade is likely to continue to be highly volatile. In future periods, if our revenue, cash flows or operating results are below the estimates or expectations of public market analysts and investors, our stock price could decline.

We may not continue to pay dividends at the same rate we are currently paying them, or at all, and any decrease in or suspension of the dividend could cause our stock price to decline.

In February 2015, we announced a doubling of the current quarterly dividend to $0.20 per share which began in March 2015. We also have returned capital to shareholders through stock repurchases. We anticipate that all quarterly dividends and stock repurchases will be paid out of cash, cash equivalents and short-term investments. The payment of future cash dividends is subject to the final determination each quarter by our Board of Directors that the dividend remains in our best interests, which determination will be based on a number of factors, including our earnings, financial condition, actual and forecasted cash flows, capital resources and capital requirements, alternative uses of capital, economic condition and other factors considered relevant by management and the Board of Directors. Any decrease in the amount of the dividend, or suspension or discontinuance of payment of a dividend, could cause our stock price to decline.

Our stock repurchase program could increase the volatility of the price of our common stock, and the program may be suspended or terminated at any time, which may cause the trading price of our common stock to decline.

In August 2007, we authorized a plan to repurchase our outstanding shares of common stock dependent on market conditions, share price and other factors. In January 2016, the Board authorized an additional $200.0 million in future repurchases under the plan. As of March 31, 2017, the total amount available for repurchase under the plan was $158.2 million.

The amount of repurchases under our stock repurchase program will vary. During 2014, we repurchased approximately 2,800,000 shares for an aggregate amount of $65.6 million. In 2015, we repurchased approximately 3,300,000 shares for an aggregate amount of $119.2 million. In 2016, we repurchased approximately 2,300,000 shares for an aggregate amount of $67.7 million. Additionally, the timing of repurchases is at our discretion and the program may be suspended or discontinued at any time. Any suspension or discontinuation could cause the market price of our stock to decline. The timing of repurchases pursuant to our stock repurchase program could affect our stock price and increase its volatility. There can be no assurance that any stock repurchases will enhance stockholder value because the market price of our common stock may decline below the levels at which we effected repurchases. Furthermore, the Company may engage in mergers, acquisitions, or other activity that could result in us reducing or discontinuing share repurchases for a period of time. For example, the DTS acquisition resulted in a significant decrease in cash, cash equivalents and short-term investments, as well as the issuance of approximately $600 million in debt. We expect to decrease share repurchases during 2017 as we accumulate cash to pay down the debt balance.

Provisions of our certificate of incorporation and bylaws or Delaware law might delay or prevent a change of control transaction and depress the market price of our stock.

Various provisions of our certificate of incorporation and bylaws might have the effect of making it more difficult for a third party to acquire, or discouraging a third party from attempting to acquire, control of our company. These provisions could limit the price that certain investors might be willing to pay in the future for shares of our common stock. Certain of these provisions eliminate cumulative voting in the election of directors, authorize the board to issue “blank check” preferred stock, prohibit stockholder action by written consent, eliminate the right of stockholders to call special meetings, and establish advance notice procedures for director nominations by stockholders and the submission of other proposals for consideration at stockholder meetings. We are also subject to provisions of Delaware law which could delay or make more difficult a merger, tender offer or proxy contest involving our company. In particular, Section 203 of the Delaware General Corporation Law prohibits a Delaware corporation from engaging in any business combination with any interested stockholder for a period of three years unless specific conditions are met. Any of these provisions could have the effect of delaying, deferring or preventing a change in control, including without limitation, discouraging a proxy contest or making more difficult the acquisition of a substantial block of our common stock.

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

Items 2(a) and 2(b) are not applicable.

(c) Stock Repurchases

In August 2007, the Company’s Board of Directors authorized a plan to repurchase the Company’s outstanding shares of common stock dependent on market conditions, share price and other factors. No expiration date has been specified for this plan. We made no stock repurchases during the first quarter of 2017. At March 31, 2017, the total amount available for repurchase under our stock repurchase program was $158.2 million.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

Exhibit Number	Exhibit Title
3.1	Restated Certificate of Incorporation (filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K, filed December 1, 2016, and incorporated herein by reference)
3.2	Certificate of Amendment of the Restated Certificate of Incorporation dated as of February 22, 2017 (filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K, filed February 27, 2017, and incorporated herein by reference)
3.3	Amended and Restated Bylaws, dated as of December 1, 2016 (filed as Exhibit 3.2 to the Registrant's Current Report on Form 8-K, filed December 1, 2016, and incorporated herein by reference)
3.4	Amendment to the Amended and Restated Bylaws, dated as of December 6, 2016 (filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K, filed December 7, 2016, and incorporated herein by reference)
10.1	Amended and Restated Severance Agreement, dated February 22, 2017, by and between the Company and Robert Andersen (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed February 27, 2017, and incorporated herein by reference)
10.2	Amended and Restated Change in Control Severance Agreement, dated February 22, 2017, by and between the Company and Robert Andersen (filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K, filed February 27, 2017, and incorporated herein by reference)
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934
32.1	Certification of the Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

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

Dated: May 3, 2017

XPERI CORPORATION

By: /s/ Thomas Lacey

Thomas Lacey
Chief Executive Officer

EXHIBIT INDEX

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Exhibit 31.1

Certification of the Chief Executive Officer
Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934

I, Thomas Lacey, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Xperi Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 3, 2017

/s/ Thomas Lacey

Thomas Lacey
Chief Executive Officer

Exhibit 31.2

Certification of the Chief Financial Officer
Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934

I, Robert Andersen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Xperi Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 3, 2017

/s/ Robert Andersen

Robert Andersen
Executive Vice President and Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
RULE 13a-14(b) OF THE SECURITIES EXCHANGE ACT OF 1934
AND 18 U.S.C. SECTION 1350

In connection with the Quarterly Report of Xperi Corporation, a Delaware corporation (the "Company"), on Form 10-Q for the three months ended March 31, 2017 as filed with the Securities and Exchange Commission (the "Report"), I, Thomas Lacey, Chief Executive Officer, certify, pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Thomas Lacey

Thomas Lacey
Chief Executive Officer
May 3, 2017

CERTIFICATION PURSUANT TO
RULE 13a-14(b) OF THE SECURITIES EXCHANGE ACT OF 1934
AND 18 U.S.C. SECTION 1350

In connection with the Quarterly Report of Xperi Corporation, a Delaware corporation (the "Company"), on Form 10-Q for the three months ended March 31, 2017 as filed with the Securities and Exchange Commission (the "Report"), I, Robert Andersen, Chief Financial Officer of the Company, certify, pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Robert Andersen

Robert Andersen
Executive Vice President and Chief Financial Officer
May 3, 2017

A signed original of this written statement required by Rule 13a-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350 has been provided to the Registrant and will be retained by the Registrant and furnished to the Securities and Exchange Commission or its staff upon request.