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TESSERA TECHNOLOGIES INC

FORM 10-Q
(Quarterly Report)

Filed 11/01/16 for the Period Ending 09/30/16

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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 September 30, 2016

OR

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

Commission File Number: 000-50460

TESSERA TECHNOLOGIES, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	**16-1620029**
(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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

The number of shares outstanding of the registrant's common stock as of October 21, 2016 was 48,583,866

TESSERA TECHNOLOGIES, INC.

FORM 10-Q — QUARTERLY REPORT

FOR THE QUARTER ENDED SEPTEMBER 30, 2016

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TESSERA TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except for par value)
(unaudited)

	September 30, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 50,401	$ 22,599
Short-term investments	345,854	359,145
Accounts receivable, net	2,640	1,784
Other current assets	24,540	28,130
Total current assets	423,435	411,658
Intangible assets, net	76,963	95,089
Long-term deferred tax assets	6,093	15,649
Other assets	18,042	16,956
Total assets	$ 524,533	$ 539,352
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 803	$ 1,090
Accrued legal fees	3,792	2,621
Accrued liabilities	10,866	10,262
Deferred revenue	1,934	6,805
Total current liabilities	17,395	20,778
Long-term deferred tax and other liabilities	2,675	3,417
Commitments and contingencies (Note 11)		
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; 59,277 and 58,692 shares issued, respectively, and 48,549 and 50,294 shares outstanding, respectively	59	58
Additional paid-in capital	621,113	599,186
Treasury stock at cost; 10,727 and 8,398 shares of common stock at each period end, respectively	(299,555)	(229,513)
Accumulated other comprehensive income (loss)	33	(1,437)
Retained earnings	182,813	146,863
Total stockholders' equity	504,463	515,157
Total liabilities and stockholders' equity	$ 524,533	$ 539,352

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

TESSERA TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)
(unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Revenues:				
Royalty and license fees	$ 62,433	$ 67,426	$ 189,430	$ 211,464
Total revenues	62,433	67,426	189,430	211,464
Operating expenses:				
Cost of revenues	99	62	238	370
Research, development and other related costs	8,622	8,551	28,997	23,781
Selling, general and administrative	12,491	10,912	34,751	33,032
Amortization expense	6,052	5,186	18,126	14,573
Litigation expense, net	580	2,938	12,422	10,961
Total operating expenses	27,844	27,649	94,534	82,717
Operating income	34,589	39,777	94,896	128,747
Other income and expense, net	864	755	2,473	2,173
Income before taxes from continuing operations	35,453	40,532	97,369	130,920
Provision for income taxes	11,634	7,596	31,977	36,647
Income from continuing operations	23,819	32,936	65,392	94,273
Loss from discontinued operations, net of tax	—	(437)	—	(68)
Net income	$ 23,819	$ 32,499	$ 65,392	$ 94,205
Income per share:				
Income from continuing operations:				
Basic	$ 0.49	$ 0.64	$ 1.33	$ 1.81
Diluted	$ 0.48	$ 0.63	$ 1.31	$ 1.78
Loss from discontinued operations:				
Basic	$ —	$ (0.01)	$ —	$ —
Diluted	$ —	$ (0.01)	$ —	$ —
Net income:				
Basic	$ 0.49	$ 0.63	$ 1.33	$ 1.81
Diluted	$ 0.48	$ 0.62	$ 1.31	$ 1.78
Cash dividends declared per share	$ 0.20	$ 0.20	$ 0.60	$ 0.60
Weighted average number of shares used in per share calculations-basic	48,545	51,825	49,096	52,167
Weighted average number of shares used in per share calculations-diluted	49,304	52,514	49,803	52,992

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

TESSERA TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)
(unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2016	**September 30, 2015**	**September 30, 2016**	**September 30, 2015**
Net income	$ 23,819	$ 32,499	$ 65,392	$ 94,205
Other comprehensive income (loss):				
Net unrealized gains (losses) on available-for- sale securities, net of tax	(360)	(5)	1,470	(179)
Other comprehensive income (loss)	(360)	(5)	1,470	(179)
Comprehensive income	$ 23,459	$ 32,494	$ 66,862	$ 94,026

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

TESSERA TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Nine Months Ended	
	September 30, 2016	September 30, 2015
Cash flows from operating activities:		
Net income	$ 65,392	$ 94,205
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation of property and equipment	1,292	1,199
Amortization of intangible assets	18,126	14,573
Stock-based compensation expense	11,041	8,457
Deferred income tax and other, net	11,604	10,329
Excess tax effect from stock based compensation	(6,339)	(1,266)
Tax effect from employee stock option plan	4,694	—
Changes in operating assets and liabilities:		
Accounts receivable, net	(856)	3,683
Other assets	4,172	(9,410)
Accounts payable	(287)	(2,883)
Accrued legal fees	1,171	(802)
Accrued and other liabilities	(58)	(2,640)
Deferred revenue	(4,871)	(2,460)
Net cash from operating activities	105,081	112,985
Cash flows from investing activities:		
Purchases of property and equipment	(2,960)	(912)
Purchases of short-term available-for-sale investments	(161,373)	(261,195)
Proceeds from maturities of short-term investments	130,570	143,894
Proceeds from sales of short-term investments	43,436	145,478
Acquisition of business, net of cash acquired	—	(38,561)
Purchases of intangible assets	—	(2,950)
Net cash from investing activities	9,673	(14,246)
Cash flows from financing activities:		
Dividend paid	(29,442)	(31,468)
Excess tax benefit from stock-based compensation	6,339	1,266
Proceeds from exercise of stock options	4,195	8,402
Proceeds from employee stock purchase program	1,998	1,665
Repurchase of common stock	(70,042)	(97,484)
Net cash from financing activities	(86,952)	(117,619)
Net changes in cash and cash equivalents	27,802	(18,880)
Cash and cash equivalents at beginning of period	22,599	50,908
Cash and cash equivalents at end of period	$ 50,401	$ 32,028

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

TESSERA TECHNOLOGIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

NOTE 1 – THE COMPANY AND BASIS OF PRESENTATION

Tessera Technologies, Inc., including its Invensas and FotoNation subsidiaries (the "Company"), licenses its technologies and intellectual property to customers for use in areas such as mobile computing and communications, memory and data storage, and 3-D Integrated Circuit ("3D-IC") technologies, among others. The Company's technologies include semiconductor packaging, bonding, and interconnect solutions, including xFD ® , BVA ® , ZiBond ® , and DBI ® , and products and solutions for mobile and computational imaging, including our FaceTools ® , FacePower ® , FotoSavvy ® , DigitalAperture ™ , IrisCam ™ , LifeFocus ™ , face beautification, red-eye removal, High Dynamic Range, autofocus, panorama, biometrics, and image stabilization intellectual property.

On September 19, 2016, the Company entered into an Agreement and Plan of Merger (the "DTS Merger Agreement"), pursuant to which the Company and DTS, Inc. ("DTS") will each merge with indirect, wholly-owned subsidiaries of the Company, and thereby become wholly-owned subsidiaries of a new holding company (the "DTS Merger"). As a result of the DTS Merger, both DTS and the Company will become wholly-owned subsidiaries of the new holding company ("Holdco"), and their equity securities will cease to be publicly traded. Holdco intends to apply to have its common stock listed on the NASDAQ Global Select Market, as is the case today with DTS and Company common stock. At the effective time of the DTS Merger, the Company's common stock will be converted into Holdco common stock, and each share of DTS common stock generally will be converted into the right to receive $42.50 in cash. The Company intends to fund the payment of this cash consideration with its existing cash balances and a $600.0 million secured term loan. The consummation of the DTS Merger is subject to the satisfaction of a number of conditions, including approval of the DTS Merger and adoption of the DTS Merger Agreement by the stockholders of DTS.

The accompanying interim unaudited condensed consolidated financial statements as of September 30, 2016 and 2015, and for the three and nine 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, 2015 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, 2015, included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015, filed on February 22, 2016 (the "Form 10-K").

The results of operations for the three and nine months ended September 30, 2016 are not necessarily indicative of the results that may be expected for the full year ended December 31, 2016 or any future period and the Company makes no representations related thereto.

Reclassification

Certain reclassifications have been made to prior period balances in order to conform to the current period's presentation.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

There have been no significant changes in the Company's significant accounting policies during the nine months ended September 30, 2016, as compared to the significant accounting policies described in the Form 10-K.

Recently Adopted Accounting Pronouncements

In June 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2014-12, Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period ("ASU 2014-12"). The amendments in ASU 2014-12 require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in Accounting Standards Codification Topic No. 718, "Compensation - Stock Compensation" ("ASC 718"), as it relates to awards with performance conditions that affect vesting to account for such awards.

The amendments in ASU 2014-12 were adopted effective January 1, 2016. The implementation of this guidance did not have a material impact to the disclosures in the Company's consolidated financial statements.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 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, the Company may adopt the new standard under the full retrospective approach or the modified retrospective approach. Under the new standard, the current practice of many licensing companies of reporting revenues 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 revenues. The Company is currently evaluating the method of adoption and the resulting impact on the 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 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. This guidance is effective for fiscal years beginning after December 15, 2016 and for interim periods within those fiscal years, with early adoption permitted. The Company is currently assessing the impact the adoption of this new accounting standard would have on its consolidated financial statements and footnote disclosures.

In August 2016, the FASB issued ASU 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 ASU will have on its consolidated statement of cash flows.

NOTE 3 – COMPOSITION OF CERTAIN FINANCIAL STATEMENT CAPTIONS

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

	September 30, 2016	December 31, 2015
Prepaid income taxes	$ 19,315	$ 22,890
Interest receivable	2,307	2,427
Other	2,918	2,813
	$ 24,540	$ 28,130

Accrued liabilities consisted of the following (in thousands):

	September 30, 2016	December 31, 2015
Employee compensation and benefits	$ 5,811	$ 6,848
Other	5,055	3,414
	$ 10,866	$ 10,262

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

	September 30, 2016		December 31, 2015	
Unrealized gains (losses) on available-for-sale securities, net of tax	$	33	$	(1,437)
	$	33	$	(1,437)

NOTE 4 – FINANCIAL INSTRUMENTS

The following is a summary of marketable securities at September 30, 2016 and December 31, 2015 (in thousands):

	September 30, 2016							
	Cost		Gross Unrealized Gains		Gross Unrealized Losses		Estimated Fair Values	
Available-for-sale securities								
Corporate bonds and notes	$	185,255	$	262	$	(156)	$	185,361
Municipal bonds and notes		92,080		21		(45)		92,056
Commercial paper		47,896		12		(31)		47,877
Treasury and agency notes and bills		35,546		3		(16)		35,533
Money market funds		219		—		—		219
Total available-for-sale securities	$	360,996	$	298	$	(248)	$	361,046
Reported in:								
Cash and cash equivalents							$	15,192
Short-term investments								345,854
Total marketable securities							$	361,046

	December 31, 2015							
	Cost		Gross Unrealized Gains		Gross Unrealized Losses		Estimated Fair Values	
Available-for-sale securities								
Corporate bonds and notes	$	257,461	$	7	$	(1,286)	$	256,182
Municipal bonds and notes		70,772		12		(81)		70,703
Treasury and agency notes and bills		26,973		—		(93)		26,880
Commercial paper		5,377		3		—		5,380
Money market funds		715		—		—		715
Total available-for-sale securities	$	361,298	$	22	$	(1,460)	$	359,860
Reported in:								
Cash and cash equivalents							$	715
Short-term investments								359,145
Total marketable securities							$	359,860

At September 30, 2016 and December 31, 2015 , the Company had $396.3 million and $381.7 million , respectively, in cash, cash equivalents and short-term investments. The majority of these amounts were held in marketable securities, as shown above. The remaining balance of $35.2 million and $21.9 million at September 30, 2016 and December 31, 2015 , respectively, was cash held in operating accounts not included in the tables above.

The gross realized gains and losses on sales of marketable securities were not significant during the three and nine months ended September 30, 2016 and 2015 .

Unrealized gains and unrealized losses were $0.2 million and $0.2 million , respectively, net of tax, as of September 30, 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 September 30, 2016 because the Company has the ability to hold these investments to allow for recovery. On occasion, the Company may decide to sell these securities prior to maturity which may result in a realized loss and a return less than the contractual rate. For the nine months

ended September 30, 2016 and 2015 , 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 September 30, 2016 and December 31, 2015, which have been in a continuous unrealized loss position, aggregated by investment category and length of time (in thousands):

September 30, 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	$ 75,702	$ (118)	$ 19,722	$ (38)	$ 95,424	$ (156)
Treasury and agency notes and bills	21,500	(15)	—	—	21,500	(15)
Municipal bonds and notes	49,190	(45)	—	—	49,190	(45)
Commercial paper	42,534	(32)	—	—	42,534	(32)
Total	$ 188,926	$ (210)	$ 19,722	$ (38)	$ 208,648	$ (248)

December 31, 2015	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	$ 183,491	$ (1,162)	$ 70,447	$ (124)	$ 253,938	$ (1,286)
Municipal bonds and notes	60,976	(81)	—	—	60,976	(81)
Treasury and agency notes and bills	26,880	(93)	—	—	26,880	(93)
Total	$ 271,347	$ (1,336)	$ 70,447	$ (124)	$ 341,794	$ (1,460)

The estimated fair value of marketable securities by contractual maturity at September 30, 2016 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	$ 164,551
Due in one to two years	120,872
Due in two to three years	75,623
Total	$ 361,046

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 calculate the fair value of our Level 1 and 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, 2015 and September 30, 2016.

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 September 30, 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)	$ 219	$ 219	$ —	$ —
Corporate bonds and notes (2)	185,361	—	185,361	—
Municipal bonds and notes (2)	92,056	—	92,056	—
Treasury and agency notes and bills (2)	35,533	—	35,533	—
Commercial paper (3)	47,877	—	47,877	—
Total Assets	$ 361,046	$ 219	$ 360,827	$ —

The following footnotes indicate where the noted items were recorded in the Condensed Consolidated Balance Sheet at September 30, 2016 :

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

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, 2015 (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)	$ 715	$ 715	$ —	$ —
Corporate bonds and notes (2)	256,182	—	256,182	—
Municipal bonds and notes (2)	70,703	—	70,703	—
Treasury and agency notes and bills (2)	26,880	—	26,880	—
Commercial paper (3)	5,380	—	5,380	—
Total Assets	$ 359,860	$ 715	$ 359,145	$ —

The following footnotes indicate where the noted items were recorded in the Condensed Consolidated Balance Sheet at December 31, 2015 :

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

NOTE 6 – IDENTIFIED INTANGIBLE ASSETS

The balance of our goodwill, which was recorded as a result of business acquisitions in 2014 and 2015, is $10.1 million at September 30, 2016 and December 31, 2015, respectively, and is included in other assets on our Condensed Consolidated Balance Sheets.

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

		September 30, 2016			December 31, 2015		
	Average Life (Years)	Gross Assets	Accumulated Amortization	Net	Gross Assets	Accumulated Amortization	Net
Acquired patents / core technology	3-15	$ 140,345	$ (92,444)	$ 47,901	$ 140,345	$ (79,128)	$ 61,217
Existing technology	5-10	50,620	(23,553)	27,067	50,620	(20,182)	30,438
Customer contracts	3-9	10,200	(9,108)	1,092	10,200	(7,792)	2,408
Trade name	4-10	1,600	(697)	903	1,600	(574)	1,026
		$ 202,765	$ (125,802)	$ 76,963	$ 202,765	$ (107,676)	$ 95,089

Amortization expense for the three months ended September 30, 2016 and 2015 amounted to $6.1 million and $5.2 million , respectively. Amortization expense for the nine months ended September 30, 2016 and 2015 amounted to $18.1 million and $14.6 million , respectively.

As of September 30, 2016 , the estimated future amortization expense of intangible assets is as follows (in thousands):

2016 (remaining 3 months)	$ 6,052
2017	21,715
2018	19,359
2019	10,926
2020	6,777
Thereafter	12,134
	$ 76,963

NOTE 7 – NET INCOME 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 and nine months ended September 30, 2016 and 2015.

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

	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Denominator:				
Weighted average common shares outstanding	48,558	51,856	49,114	52,209
Less: Unvested common shares subject to repurchase	(13)	(31)	(18)	(42)
Total common shares-basic	48,545	51,825	49,096	52,167
Effect of dilutive securities:				
Stock awards	284	285	267	364
Restricted stock awards and units	475	404	440	461
Total common shares-diluted	49,304	52,514	49,803	52,992

Basic net income 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 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, the average unrecognized stock compensation cost during the period and any tax benefits that will be credited upon exercise to additional paid-in capital.

For the three and nine months ended September 30, 2016, in the calculation of net income per share, 0.3 million and 0.1 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.

For the three and nine months ended September 30, 2015, in the calculation of net income per share, approximately 0.1 million shares, 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 8 – 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. As of September 30, 2016, 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 . As of December 31, 2015 , the Company had repurchased a total of approximately 8,234,000 shares of common stock, since inception of the plan, at an average price of $27.22 per share for a total cost of $224.1 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 September 30, 2016, 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, although the Company's future level of share repurchases may be reduced from historical levels, or suspended, as a result of the planned DTS Merger.

Stock Option Plans

The 2003 Plan

As of September 30, 2016 , there were approximately 3.4 million shares reserved for future grants 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, 2015	1,143	$20.63
Options granted	—	—
Options exercised	(227)	$18.46
Options canceled / forfeited / expired	(41)	$22.99
Balance at September 30, 2016	875	$21.08

Restricted Stock Awards and Units

Information with respect to outstanding restricted stock awards and units as of September 30, 2016 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, 2015	690	519	1,209	$ 29.28
Awards and units granted	551	86	637	$ 30.25
Awards and units vested / earned	(198)	(84)	(282)	$ 30.28
Awards and units canceled / forfeited	(74)	(88)	(162)	$ 28.50
Balance at September 30, 2016	969	433	1,402	$ 29.61

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 September 30, 2016 , there were approximately 407,000 shares reserved for grant under Company's 2003 Employee Stock Purchase Plan (the "ESPP") and the International Employee Stock Purchase Plan (the "International ESPP"), collectively.

NOTE 9 – STOCK-BASED COMPENSATION EXPENSE

The effect of recording stock-based compensation expense for the three and nine months ended September 30, 2016 and 2015 is as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Research, development and other related costs	$ 1,192	$ 1,109	$ 4,062	$ 2,805
Selling, general and administrative	2,281	1,776	6,979	5,652
Total stock-based compensation expense	3,473	2,885	$ 11,041	$ 8,457

Stock-based compensation expense categorized by various equity components for the three and nine months ended September 30, 2016 and 2015 is summarized in the table below (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Employee stock options	$ 446	$ 635	$ 1,456	$ 2,142
Restricted stock awards and units	2,802	2,125	8,954	5,885
Employee stock purchase plan	225	125	631	430
Total stock-based compensation expense	$ 3,473	$ 2,885	$ 11,041	$ 8,457

The following assumptions were used to value the options granted:

	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Expected life (in years)	*	3.8	*	3.8
Risk-free interest rate	*	1.3%	*	1.1-1.4%
Dividend yield	*	2.1%	*	2.1 -2.9%
Expected volatility	*	34.0%	*	34.0 - 35.6%

* There were no options granted in the three and nine months ended September 30, 2016.

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

	August 2016	August 2015	February 2016	February 2015
Expected life (years)	2.0	2.0	2.0	2.0
Risk-free interest rate	0.5%	0.7%	0.8%	0.4%
Dividend yield	3.0%	2.1%	2.4%	3.4%
Expected volatility	30.0%	29.7%	30.0%	30.0%

NOTE 10 – INCOME TAXES

The provision for income taxes for the three months and nine months ended September 30, 2016 was $11.6 million and $32.0 million , respectively. The provision for income taxes for the three and nine months ended September 30, 2016 was primarily related to foreign withholding taxes, and tax liability generated from U.S. and foreign operations, offset by the benefit from the reversal of unrecognized tax benefits due to lapses in the statute of limitations and audit completion. The provision for income taxes for the three and nine months ended September 30, 2015 was $7.6 million and $36.6 million , respectively. The provision for income taxes for the three and nine months ended September 30, 2015 was primarily related to tax liability generated from U.S. and foreign operations, and foreign withholding taxes, offset by the benefit from the release of valuation allowance primarily related to Ireland deferred tax assets and the reversal of unrecognized tax benefits due to lapses in the statute of limitations. The decrease in the provision for income taxes for the nine months ended September 30, 2016 as compared to the same period in the prior year is largely attributable to a decrease in profits and foreign withholding taxes for the current period. 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.

As of September 30, 2016, unrecognized tax benefits were $2.2 million , of which $1.4 million would affect the effective tax rate if recognized. At December 31, 2015, unrecognized tax benefits were $3.1 million of which $2.4 million would affect the

effective tax rate if recognized. Within the next 12 months, there are no unrecognized tax benefits expected to decrease due to lapses in the relevant statute of limitations.

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 and nine months ended September 30, 2016, the Company recognized an insignificant amount of interest and penalties related to unrecognized tax benefits. As of September 30, 2016 and December 31, 2015, the Company had accrued $0.4 million and $0.5 million , respectively, of interest and penalties related to unrecognized tax benefits.

At September 30, 2016, the Company's 2011 through 2015 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 utilized in an open year may also be subject to examination. The Company completed an Internal Revenue Service examination related to its 2010 through 2013 tax returns which resulted in no adjustment. The Company previously completed an Internal Revenue Service examination related to its 2008 and 2009 tax returns which resulted in minimal changes to the statement of operations. The audit was settled in 2014 but the Company is currently disputing the interest calculation for the audit assessment amount. The Company is currently under examination in California for the 2011 and 2012 tax years.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

Lease Commitments

The Company leases office and research facilities and office equipment under operating leases which expire at various dates through 2020. The amounts reflected in the table below are for the aggregate future minimum lease payments under non-cancelable facility and equipment operating leases. Under lease agreements that contain escalating rent provisions, lease expense is recorded on a straight-line basis over the lease term. Rent expense for the three months ended September 30, 2016 and 2015 amounted to $0.7 million and $0.6 million , respectively. Rent expense for the nine months ended September 30, 2016 and 2015 amounted to $1.8 million and $1.6 million , respectively.

As of September 30, 2016 , future minimum lease payments are as follows (in thousands):

	Lease Obligations
2016 (remaining 3 months)	$ 690
2017	2,606
2018	2,630
2019	2,496
2020	2,148
Thereafter	277
	$ 10,847

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, and the parties' motions for summary judgment are under submission. The fact discovery cutoff date is October 31, 2016. The expert discovery cutoff date is March 3, 2017. A hearing on any remaining motions for summary judgment is set for March 16, 2017. Trial is scheduled to begin on June 19, 2017.

Garfield v. DTS, Inc., et al., Civil Action No. TN6317 (Superior Court of California, Ventura County)

On October 26, 2016, an alleged stockholder of DTS, Robert Garfield, filed a putative class action lawsuit in the Superior Court of California, Ventura County, against DTS, Inc. ("DTS"), members of DTS's board of directors, DTS's financial advisor in connection with the DTS Merger, and the Company. The complaint purports to allege claims for breach of fiduciary duties of care, good faith, and loyalty against the DTS directors; breach of the fiduciary duty of disclosure against DTS and the DTS directors; and aiding and abetting the purported breaches of fiduciary duties against the Company and DTS's financial advisor. The complaint seeks, inter alia, certification as a class action; an order enjoining the merger or, if it is consummated, an order rescinding it; a reduction in the termination fee payable by DTS to the Company; damages; and attorneys' fees. The Company believes the complaint is meritless and intends to defend the action vigorously. The Company has not yet been served with the complaint.

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 revenues.

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 12 – SEGMENT AND GEOGRAPHIC INFORMATION

The Company operates its business in one operating segment, focused on the monetization of intellectual property, both internally developed and acquired, through royalties, licenses and other means.

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

	Three Months Ended,				Nine Months Ended,			
	September 30, 2016		September 30, 2015		September 30, 2016		September 30, 2015	
U.S.	$ 21,218	34%	$ 23,613	35%	$ 76,027	40%	$ 74,406	35%
Korea	22,669	36	23,952	36	60,090	32	63,176	30
Taiwan	7,187	12	7,221	11	27,578	15	49,836	24
Other	11,359	18	12,640	18	25,735	13	24,046	11
	$ 62,433	100%	$ 67,426	100%	$ 189,430	100%	$ 211,464	100%

For the three months ended September 30, 2016 and 2015, there were six and five customers, respectively, that each accounted for 10% or more of total revenues. For the nine months ended September 30, 2016 and 2015, there were four and five customers, respectively, that each accounted for 10% or more of total revenues.

NOTE 13 - SUBSEQUENT EVENTS

Dividend Payment

On October 26, 2016, the Board declared a cash dividend of $0.20 per share of common stock, payable on November 23, 2016 for the stockholders of record at the close of business on November 9, 2016.

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, 2015 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 revenues, product development, the DTS merger and related debt financing and transactions, 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 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.tessera.com. The reference to our website address does not constitute incorporation by reference of the information contained on this website.

Tessera, the Tessera logo, FotoNation, the FotoNation logo, DigitalAperture, FaceTools, FacePower, FotoSavvy, IrisCam, LifeFocus, Invensas, the Invensas logo, xFD, FD, DFD, TFD, QFD, BVA, ZiBond and DBI are trademarks or registered trademarks of the Company 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 Tessera Technologies, Inc., 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

Tessera Technologies, Inc., including its Invensas and FotoNation subsidiaries, licenses its technologies and intellectual property to customers for use in areas such as mobile computing and communications, memory and data storage, and 3-D Integrated Circuit (“3D-IC”) technologies, among others. Our technologies include semiconductor packaging, bonding, and interconnect solutions, including xFD ® , BVA ® , ZiBond ® , and DBI ® , and products and solutions for mobile and computational imaging, including our FaceTools ® , FacePower ® , FotoSavvy ® , DigitalAperture ™ , IrisCam ™ , LifeFocus ™ , face beautification, red-eye removal, High Dynamic Range, autofocus, panorama, biometrics, and image stabilization intellectual property.

All financial results and discussions below relate to continuing operations unless otherwise specified and conform to our determination that we operate in a single operating segment.

On September 19, 2016, we entered into an Agreement and Plan of Merger (the “DTS Merger Agreement”), pursuant to which the Company and DTS, Inc. (“DTS”) will each merge with indirect, wholly-owned subsidiaries of the Company, and thereby become wholly-owned subsidiaries of a new holding company (the “DTS Merger”). As a result of the DTS Merger, both DTS and the Company will become wholly-owned subsidiaries of the new holding company (“Holdco”), and their equity securities will cease to be publicly traded. Holdco intends to apply to have its common stock listed on the NASDAQ Global Select Market, as is the case today with DTS and Company common stock. At the effective time of the DTS Merger, the Company’s common stock will be converted into Holdco common stock, and each share of DTS common stock generally will be converted into the right to receive $42.50 in cash. We intend to fund the payment of this cash consideration with our existing cash balances and a $600.0 million secured term loan. The consummation of the DTS Merger is subject to the satisfaction of a number of conditions, including approval of the DTS Merger and adoption of the DTS Merger Agreement by the stockholders of DTS.

We believe that the DTS Merger will help us to deliver the next generation of audio and imaging solutions to the global consumer electronics, mobile, and automotive markets, and to target new markets. The DTS Merger will result in material changes to our balance sheet, results of operations and cash flows. For example, the financing of the DTS Merger will require a significant amount of our current cash and cash equivalents and will also be financed through the incurrence of substantial long-term debt. Additionally, our revenue, operating expenses and cash from operations should all increase resulting in the trends noted below in our *"Results of Operations"* to be altered going forward.

Results of Operations

Revenues

Our revenues are 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 it can be difficult to accurately estimate our royalty revenues prior

to obtaining these reports from the licensees, we generally recognize royalty revenues on a one quarter lag. The timing of revenue recognition and the amount of revenue actually recognized for each type of revenues 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 revenues 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.

We are currently and have in the past been 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 revenues:

	Three Months Ended		**Nine Months Ended**	
	September 30, 2016	**September 30, 2015**	**September 30, 2016**	**September 30, 2015**
Revenues:				
Royalty and license fees	100%	100 %	100%	100%
Total Revenues	100	100	100	100
Operating expenses:				
Research, development and other related costs	14	13	15	11
Selling, general and administrative	20	16	18	16
Amortization expense	10	8	10	7
Litigation expense, net	1	4	7	5
Total operating expenses	45	41	50	39
Operating income from continuing operations	55	59	50	61
Other income and expense, net	2	1	2	1
Income from continuing operations before taxes	57	60	52	62
Provision for income taxes	19	11	17	17
Income from continuing operations	38	49	35	45
Income from discontinued operations, net of tax	—	(1)	—	—
Net income	38%	48 %	35%	45%

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

	Three Months Ended			
	September 30, 2016	**September 30, 2015**	**Increase/ (Decrease)**	**% Change**
Royalty and license fees	$ 62,433	$ 67,426	$ (4,993)	(7)%

The $5.0 million or 7% decrease in revenues was due to a decrease in recurring revenue of $4.0 million and a decrease in episodic revenue of $1.0 million in the three months ended September 30, 2016 when compared to the three months ended September 30, 2015. The recurring revenue decrease primarily resulted from the timing of revenue related to contractual arrangements for certain customers.

	Nine Months Ended			
	September 30, 2016	September 30, 2015	Increase/ (Decrease)	% Change
Royalty and license fees	$ 189,430	$ 211,464	$ (22,034)	(10)%

The $22.0 million or 10% decrease in revenues was due to a decrease in episodic revenue of $24.3 million which was partially offset by an increase in recurring revenue of $2.3 million in the nine months ended September 30, 2016 when compared to the nine months ended September 30, 2015. The episodic revenue decrease was primarily the result of a $27.0 million episodic payment made by Advanced Semiconductor Engineering, Inc. in the first quarter of 2015. Recurring revenue was up $2.3 million primarily as a result of our settlement of the UTAC litigation matter during 2016 off-set by decreases in our royalty-based revenue from licensees.

Cost of Revenues

Cost of revenues consists of direct compensation and related expenses to provide non-recurring engineering services ("NRE"). We anticipate these expenses will continue to be a low percentage of total revenue as our NRE services are not a significant portion of our revenues.

Cost of revenues for the three months ended September 30, 2016 and 2015 was $0.1 million. Cost of revenues for the nine months ended September 30, 2016 was $0.2 million, as compared to $0.4 million for the nine months ended September 30, 2015 . The change related to a decrease in direct labor from non-recurring engineering services.

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 chip-scale and multi-chip packaging, circuitry design, 3D-IC architectures, wafer-level packaging technology, bonding technologies, machine learning, and image enhancement technology. All research, development and other related costs are expensed as incurred.

Research, development and other related costs for the three months ended September 30, 2016 and 2015 were $8.6 million. Personnel related expenses increased approximately $0.5 million in the three months ended September 30, 2016 when compared to the three months ended September 31, 2015. Over the past several quarters, we have increased our research and development headcount both through the acquisition of Ziptronix and through strategic hiring as we have expanded our research and development programs for FotoNation products, undertaken new initiatives for our advanced packaging technologies, and expanded our office of the Chief Technology Officer. The increase in personnel related expenses was partially offset by a one-time credit related to a value added tax refund.

Research, development and other related costs for the nine months ended September 30, 2016 were $29.0 million, as compared to $23.8 million for the nine months ended September 30, 2015 , an increase of $5.2 million. The increase was primarily related to a $2.9 million increase in personnel related expenses, a $1.3 million increase in stock based compensation and $1.0 million increase in legal and other outside services. These increases, as noted above, result from increasing our research and development headcount as we remain committed to expanding into new technologies.

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, 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 September 30, 2016 were $12.5 million, as compared to $10.9 million for the three months ended September 30, 2015 , an increase of $1.6 million. The increase was primarily attributable to an increase of $0.5 million in stock based compensation and an increase of $1.5 million in outside services. The increase in outside services was primarily related to our planned acquisition of DTS. These increases were partially offset by a decrease in marketing costs of $0.5 million resulting primarily from a one-time spend related to purchasing marketing reports in the third quarter of last year. The increase in selling, general and administrative expenses was also offset by a one-time tax credit related to a value added tax refund.

Selling, general and administrative expenses for the nine months ended September 30, 2016 were $34.8 million, as compared to $33.0 million for the nine months ended September 30, 2015 , an increase of $1.8 million. The increase was primarily attributable to an increase of $1.3 million in stock based compensation and an increase of $1.3 million in outside services. The increase in outside services was primarily related to our planned acquisition of DTS. These increases were partially offset by a decrease in marketing costs of $0.5 million resulting primarily from a one-time expenditure related to purchasing marketing reports in the third quarter of last year. The increase in selling, general and administrative expenses was also offset by a one-time tax credit in the third quarter of 2016 related to a value added tax refund.

Amortization Expense

Amortization expense for the three months ended September 30, 2016 was $6.1 million, as compared to $5.2 million for the three months ended September 30, 2015 , an increase of $0.9 million. This increase was primarily attributable to intangible assets recorded in connection with the Ziptronix acquisition in August 2015 as well as $4.5 million in intellectual property assets acquired in the third and fourth quarters of 2015.

Amortization expense for the nine months ended September 30, 2016 was $18.1 million, as compared to $14.6 million for the nine months ended September 30, 2015 , an increase of $3.5 million. This increase was primarily attributable to intangible assets recorded in connection with the Ziptronix acquisition in August 2015 as well as $6.0 million in intellectual property assets acquired in the second, third and fourth quarters of 2015.

We expect amortization expense to continue being a material portion of our operating expenses in future periods as we are actively pursuing additional acquisitions of intellectual property assets.

Litigation Expense, net

Litigation expense, net for the three months ended September 30, 2016 was $0.6 million, as compared to $2.9 million for the three months ended September 30, 2015 , a decrease of $2.3 million. We incurred $5.6 million in litigation expense during the three months ended September 30, 2016 but we also recorded an offset to litigation expense of $5.0 million due to an insurance settlement which refunded certain litigation costs incurred in prior years. Without this insurance settlement, our litigation expense would have increased $2.7 million as a result of the increase in our docket of legal proceedings. See Part II, Item 1 *"Legal Proceedings"* for additional information.

Litigation expense, net for the nine months ended September 30, 2016 was $12.4 million, as compared to $11.0 million for the nine months ended September 30, 2015 , an increase of $1.4 million. Without the insurance settlement noted above, our litigation expense would have increased approximately $6.4 million. The increase was primarily attributable to the increase in our docket of legal proceedings. See Part II, Item 1 *"Legal Proceedings"* for additional information.

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 ongoing litigation, as described in Part II, Item 1 – *Legal Proceeding* s, and because of litigation initiated from time to time in the future in order to enforce and protect our intellectual property and contract rights.

Upon expiration of the current terms 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 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 and nine months ended September 30, 2016 and 2015 (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Research, development and other related costs	$ 1,192	$ 1,109	$ 4,062	$ 2,805
Selling, general and administrative	2,281	1,776	6,979	5,652
Total stock-based compensation expense	$ 3,473	$ 2,885	$ 11,041	$ 8,457

Stock-based compensation awards included employee stock options, restricted stock awards and units, and employee stock purchases. For the three months ended September 30, 2016, stock-based compensation expense was $3.5 million, of which $0.4 million related to employee stock options, $2.8 million related to restricted stock awards and units and $0.2 million related to employee stock purchases. For the three months ended September 30, 2015, stock-based compensation expense was $2.9 million, of which $0.6 million related to employee stock options, $2.1 million related to restricted stock awards and units and $0.1 million related to employee stock purchases.

For the nine months ended September 30, 2016, stock-based compensation expense was $11.0 million, of which $1.5 million related to employee stock options, $9.0 million related to restricted stock awards and units and $0.6 million related to employee stock purchases. For the nine months ended September 30, 2015, stock-based compensation expense was $8.5 million, of which $2.1 million related to employee stock options, $5.9 million related to restricted stock awards and units and $0.4 million related to employee stock purchases.

These increases in stock based compensation, resulted primarily from a decrease in forfeiture rates due to reduced employee turnover as compared to prior periods as the value of new grants per year has remained relatively consistent with prior years.

Other Income and Expense, Net

Other income and expense, net for the three months ended September 30, 2016 was $0.9 million, as compared to $0.8 million for the three months ended September 30, 2015. Other income and expense, net for the nine months ended September 30, 2016 was $2.5 million, as compared to $2.2 million for the nine months ended September 30, 2015 . The increases for the three and nine month periods resulted from higher interest income due to higher interest rates achieved from extending the average maturity of our portfolio and from interest rates rising in general during the past several quarters.

Provision for Income Taxes

The provision for income taxes for the three and nine months ended September 30, 2016 was $11.6 million and $32.0 million, respectively. The provision for income taxes for the three and nine months ended September 30, 2016 was primarily related to foreign withholding taxes, and tax liability generated from U.S. and foreign operations, offset by the benefit from the reversal of unrecognized tax benefits due to lapses in the statute of limitations and audit completion. The provision for income taxes for the three months and nine months ended September 30, 2015 was $7.6 million and $36.6 million, respectively. The provision for income taxes for the three and nine months ended September 30, 2015 was primarily related to tax liability generated from U.S. and foreign operations, and foreign withholding taxes, offset by the benefit from the release of valuation allowance primarily related to Ireland deferred tax assets and the reversal of unrecognized tax benefits due to lapses in the statute of limitations. The decrease in the provision for income taxes for the nine months ended September 30, 2016 as compared to the same period in the prior year is largely attributable to a decrease in profits and foreign withholding taxes for the current period. Our provision for income taxes is based on our 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 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.

Liquidity and Capital Resources

	As of	
(in thousands, except for percentages)	**September 30, 2016**	**December 31, 2015**
Cash and cash equivalents	$ 50,401	$ 22,599
Short-term investments	345,854	359,145
Total cash, cash equivalents and short-term investments	$ 396,255	$ 381,744
Percentage of total assets	76%	71%

	Nine Months Ended	
	September 30, 2016	**September 30, 2015**
Net cash from operating activities	$ 105,081	$ 112,985
Net cash from investing activities	$ 9,673	$ (14,246)
Net cash from financing activities	$ (86,952)	$ (117,619)

Our primary source of liquidity and capital resources is our investment portfolio. Cash, cash equivalents and investments were $396.3 million at September 30, 2016 , an increase of $14.6 million from $381.7 million at December 31, 2015 . This increase was primarily from cash from operations of $105.1 million. This increase was partially offset by $70.0 million and $29.4 million in cash used in repurchasing stock and paying dividends, respectively. Cash and cash equivalents were $50.4 million at September 30, 2016 , an increase of $27.8 million from $22.6 million at December 31, 2015 .

Cash flows provided by operations were $105.1 million for the nine months ended September 30, 2016, primarily due to our net income of $65.4 million being adjusted for non-cash items of amortization of intangible assets of $18.1 million, stock-based compensation expense of $11.0 million, $11.6 million in deferred tax and other, net and $0.7 million in changes in operating assets and liabilities.

Cash flows provided by operations were $113.0 million for the nine months ended September 30, 2015, primarily due to our net income of $94.2 million being adjusted for non-cash items of amortization of intangible assets of $14.6 million, stock-based compensation expense of $8.5 million and $10.3 million in deferred tax and other, net. These sources of cash flows were partially offset by $14.5 million in changes in operating assets and liabilities.

Net cash provided by investing activities was $9.7 million for the nine months ended September 30, 2016, resulting from maturities and sales of short-term investments of $174.0 million, partially offset by the purchases of available-for-sale securities of $161.4 million and the purchase of $3.0 million in property and equipment. Net cash used in investing activities was $14.2 million for the nine months ended September 30, 2015, primarily related to the purchases of available-for-sale securities of $261.2 million, the acquisition of Ziptronix, Inc. for $38.6 million and the purchase of $3.0 million in intangible assets, offset by maturities and sales of short-term investments of $289.4 million.

Net cash used in financing activities was $87.0 million for the nine months ended September 30, 2016 due to dividend payments of $29.4 million and stock repurchases of $70.0 million, partially offset by $6.2 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 $117.6 million for the nine months ended September 30, 2015 due to dividend payments of $31.5 million and stock repurchases of $97.5 million, partially offset by $10.1 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 three and nine months ended September 30, 2016 and 2015 , no impairment charges with respect to our investments were recorded.
We intend to fund the payment of the DTS cash consideration with our existing cash balances and a $600.0 million secured term loan. We have obtained a financing commitment letter from Royal Bank of Canada and Bank of Montreal for such loan. Our financing plans will result in a significant decrease in cash, cash equivalents, and short-term investments, and the incurrence of substantial long-term indebtedness.

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. No expiration has been specified for this plan. As of September 30, 2016, we have repurchased approximately 10.5 million shares of common stock since the inception of the plan, at an average price of $27.83 per share for a total cost of $291.8 million. As of September 30, 2016, the total remaining amount available for repurchase under the plan was $158.2 million. We plan to continue to execute authorized repurchases from time to time under the plan, although our future level of share repurchases may be reduced from historical levels, or suspended, as a result of the DTS Merger.

In February 2015, we announced a doubling of the current quarterly dividend to $0.20 per share which began in March 2015. The Company also returns capital to shareholders through stock repurchases and plans to evaluate future repurchases as discussed above. We anticipate that all quarterly dividends and stock repurchases 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, dividends and stock repurchases for at least the next twelve months. Poor financial results, unanticipated expenses, the planned acquisition of DTS, Inc. as well as unanticipated acquisitions of technologies or businesses or unanticipated strategic investments could give rise to additional future financing requirements, some of which may occur 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

	Payments Due by Period				
	Total	**Less than 1 Year**	**1-3 Years**	**4-5 Years**	**Thereafter**
			(In thousands)		
Operating lease obligations	$ 10,847	$ 2,644	$ 5,776	$ 2,427	$ —

The amounts reflected in the table above for 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.

As of September 30, 2016, we had accrued $2.2 million of unrecognized tax benefits in long term income taxes payable related to uncertain tax positions, and accrued approximately $0.4 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 11 – " *Commitments and Contingencies* " of the Notes to the Condensed Consolidated Financial Statements for additional detail.

Off-Balance Sheet Arrangements

As of September 30, 2016 , 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 nine months ended September 30, 2016, 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 Tessera Technologies, Inc.'s Chief Executive Officer and Chief Financial Officer, which are required in accordance with Rule 13a-14 of the Securities Exchange Act of 1934, as amended (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

Tessera Technologies, Inc. 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 are 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 Tessera Technologies, Inc., 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 Tessera Technologies Inc.'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 Tessera Technologies, Inc.'s internal control over financial reporting, as defined in Exchange Act Rules 13a-15(f) and 15d-15(f), during Tessera Technologies, Inc.'s most recent quarter that has materially affected, or is reasonably likely to materially affect, Tessera Technologies, Inc.'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.

Garfield v. DTS, Inc., et al., Civil Action No. TN6317 (Superior Court of California, Ventura County)

On October 26, 2016, an alleged stockholder of DTS, Robert Garfield, filed a putative class action lawsuit in the Superior Court of California, Ventura County, against DTS, Inc. ("DTS"), members of DTS's board of directors, DTS's financial advisor in connection with the DTS Merger, and the Company. The complaint purports to allege claims for breach of fiduciary duties of care, good faith, and loyalty against the DTS directors; breach of the fiduciary duty of disclosure against DTS and the DTS directors; and aiding and abetting the purported breaches of fiduciary duties against the Company and DTS's financial advisor. The complaint seeks, inter alia, certification as a class action; an order enjoining the merger or, if it is consummated, an order rescinding it; a reduction in the termination fee payable by DTS to the Company; damages; and attorneys' fees. The Company believes the complaint is meritless and intends to defend the action vigorously. The Company has not yet been served with the complaint.

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, and the parties' motions for summary judgment are under submission. The fact discovery cutoff date is October 31, 2016. The expert discovery cutoff date is March 3, 2017. A hearing on any remaining motions for summary judgment is set for March 16, 2017. Trial is scheduled to begin on June 19, 2017.

Ziptronix, Inc. v. OmniVision Technologies, Inc. et al., Civil Action No. 4:10-cv-05525 (N.D. Cal.)

On December 6, 2010 Ziptronix, Inc. ("Ziptronix") filed a complaint against OmniVision Technologies, Inc. ("OmniVision"), Taiwan Semiconductor Manufacturing Corporation, Ltd. and TSMC North America Corp. (collectively, "TSMC") in the U.S. District Court for the Northern District of California. Ziptronix's complaint asserts that OmniVision and TSMC infringe Ziptronix's U.S. Patent Nos. 6,864,585, 7,037,755, 7,335,572, 7,387,944, 7,553,744, 7,807,549. On May 4, 2011, OmniVision and TSMC filed their answers and affirmative defenses to Ziptronix's first amended complaint, and TSMC asserted counterclaims alleging that Ziptronix infringes TSMC's U.S. Patent Nos. 6,682,981, 7,307,020, 6,765,279, 7,385,835, and 6,350,694. All of these TSMC patents, except for U.S. Patent No. 6,350,694, have expired. On November 8, 2011, TSMC amended its counterclaims, and Ziptronix answered TSMC's amended counterclaims on December 9, 2011.

On August 2, 2012, Ziptronix filed a second amended complaint asserting that OmniVision and TSMC also infringed Ziptronix's U.S. Patent Nos. 7,871,898, 8,053,329, and 8,153,505.

On September 30, 2014, the Court granted TSMC's motion for summary judgment, finding that TSMC's allegedly infringing activities do not occur in the United States and thus such activities are not subject to the U.S. patent laws. On March 2, 2015, the Court granted a similar motion for summary judgment filed by OmniVision as to certain of its activities. Neither TSMC's

nor OmniVision's motions for summary judgment, nor the Court's related orders, addressed substantive issues of infringement (i.e. whether TSMC's or OmniVision's products practice Ziptronix's patents), or the validity of the asserted Ziptronix patents.

Claim construction issues were fully briefed as of November 2012, and are under submission. Discovery remains open. No trial date has been scheduled. Pursuant to Court order, the parties have and are to participate in a further settlement conference before Magistrate Judge Joseph Spero.

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.

A claim construction hearing is scheduled for December 1, 2016. The evidentiary hearing is scheduled to take 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 motion to transfer is under submission.

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, which is under submission. 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. 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's European Patent EP 1 186 034 B1, and requests, among other things, that the respondents be ordered to refrain from offering, putting onto the market, or using infringing products in the Federal Republic of Germany; refrain from importing into it or being in possession of such products for the aforementioned purposes; destroy and recall infringing products; and pay damages.

On August 26, 2016, the respondents filed their answer to the complaint. Invensas's reply is due November 4, 2016. A bench trial is scheduled for February 3, 2017.

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. The complaint alleges that the respondents infringe Invensas's European Patent EP 1 186 034 B1, and requests, among other things, that the respondents be ordered to refrain from offering, putting onto the market, or using infringing products in the Federal Republic of Germany; refrain from importing into it or being in possession of such products for the aforementioned purposes; destroy and recall infringing products; and pay damages.

On September 22, 2016 the respondents filed their answer to the complaint. Invensas's reply is due on November 15, 2016. A bench trial is scheduled for February 3, 2017.

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.

The complaint has not yet been served on Invensas. No case schedule or trial date has been set.

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's 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' statements of answer to the writ of summons are due November 9, 2016. Invensas's statement of answer to any counterclaim is due January 4, 2017. A bench trial is scheduled for November 3, 2017.

St. Paul Mercury Ins. Co. v. Tessera, Inc., Case No. 5:12-CV-01827 RMW (N.D. Cal.)

In February 2012, Tessera, Inc. notified St. Paul Mercury Insurance Co. ("St. Paul") of the complaint in *Powertech Technology Co. v. Tessera, Inc .*, Case No. 11-CV-06121-CW (N.D. Cal.) ("PTI Action"). Tessera, Inc. requested that St. Paul defend and indemnify Tessera, Inc. under certain commercial general liability insurance policies issued by St. Paul. On April 12, 2012, St. Paul filed a complaint against Tessera, Inc. in the U.S. District Court for the Northern District of California, seeking a declaratory judgment that it had no duty to defend or indemnify Tessera, Inc. in the PTI Action. St. Paul filed a first amended complaint on April 13, 2012. On May 21, 2012, Tessera, Inc. filed an answer and counterclaims, seeking a declaratory judgment that St. Paul was obligated to defend and indemnify Tessera, Inc. in the PTI Action, and alleging causes of action for breach of contract and bad faith. Tessera, Inc.'s complaint sought damages, including Tessera, Inc.'s unreimbursed costs incurred responding to and defending against PTI's complaint in the PTI Action. St. Paul answered the counterclaims on June 11, 2012.

On November 30, 2012, the district court granted St. Paul's motion for partial summary judgment, and denied Tessera, Inc.'s motion for partial summary judgment, ruling that St. Paul had no duty to defend Tessera in the PTI Action. On September 26, 2013, the court granted Tessera, Inc.'s motion for entry of final judgment pursuant to Federal Rule of Civil Procedure 54(b), and Tessera, Inc. appealed to the U.S. Court of Appeals for the Ninth Circuit.

On December 10, 2015, the court of appeals reversed the district court's judgment, holding that it erred when it relieved St. Paul of its duty to defend. The appellate court remanded the action to the district court to consider in the first instance whether an intellectual property exclusion in the insurance policies should excuse St. Paul from its duty to defend.

On June 21, 2016, following remand, the district court granted Tessera, Inc.'s motion for partial summary judgment and denied St. Paul's motion for partial summary judgment, holding that the intellectual property exclusion did not apply, and finding that St. Paul had a duty to defend Tessera, Inc. in the PTI Action.

On September 14, 2016, the parties reached a settlement pursuant to which Tessera, Inc. received $5.0 million. The parties stipulated to dismissal of the action with prejudice. This matter is now concluded.

Patent Office Proceedings

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 requests a determination that claims 16-20, and 22 of the '946 patent are unpatentable. The PTAB has not instituted the petition. No hearing date has been set. Invensas's preliminary response is due January 18, 2017.

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. The PTAB has not instituted the petition. No hearing date has been set. Invensas's preliminary response is due January 31, 2017.

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. The PTAB has not instituted the petition. No hearing date has been set. Tessera's preliminary response is due January 31, 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.

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's response is due January 22, 2017.

Japanese Patent No. 5902030

On October 25, 2016, the JPO provided notice of the filing of an opposition to Ziptronix's Japanese Patent No. 5902030. The matter is under submission with the JPO. No response is currently due.

European Patent No. EP1111672

On or about January 3, 2006, Koninklijke Phillips Electronics N.V. and Philips Semiconductors B.V. ("Philips"), MICRON Semiconductor Deutschland GmbH ("Micron GmbH"), Infineon and STMicroelectronics, Inc. ("STM") filed oppositions to Tessera, Inc.'s European Patent No. EP1111672 (the "EP672 Patent") before the European Patent Office (the "EPO"). Micron GmbH and Infineon withdrew their oppositions on July 24, 2006 and November 4, 2006, respectively. On December 4, 2006, Phillips withdrew its opposition. An oral hearing before the EPO Opposition Division was held on June 4, 2009, resulting in a decision to revoke the EP672 Patent. Tessera, Inc. filed a Notice of Appeal on August 24, 2009.

On September 24, 2011, the EP672 Patent expired.

On March 7, 2014, the EPO Board of Appeals issued a formal decision in Tessera, Inc.'s favor that both reversed the Opposition Division's decision to revoke the EP672 Patent, and remanded the case for further proceedings before the Opposition Division on other reasons for opposition asserted by the opponent.
On September 17, 2014, STM, the sole remaining opponent, withdrew its opposition. On December 22, 2015, the Opposition Division issued a decision confirming the validity of the EP672 patent, and the proceeding concluded with publication of the decision to amend the EP672 patent in amended form on August 3, 2016. The necessary documents have been filed in order to revalidate the EP672 patent in various countries. This matter is now concluded.

Item 1A. Risk Factors

Our operations and financial results are subject to various risks and uncertainties, including those described below, that could adversely affect our business, financial condition, results of operations, cash flows, and the trading price of our common stock.

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

We earn a significant amount of our revenues from a limited number of customers. For the three months ended September 30, 2016, there were six customers that accounted for 10% or more of total revenues. We expect that a significant portion of our revenues 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 revenues could decrease substantially. 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 technologies 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 portfolios and our ability to create and implement new technologies or expand our licensable technology portfolio through acquisitions.

We derive a significant portion of our revenues 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 patent portfolios. We

devote significant resources to developing new technologies and to sourcing and acquiring patent portfolios 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 patent portfolios is intense and there is no assurance that we can continue to acquire such patent portfolios 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.

We may not be able to consummate our merger with DTS, or the consummation of such transaction may be delayed, which may disable or delay our business plans relating to the merger.

On September 19, 2016, we entered into an Agreement and Plan of Merger (the "DTS Merger Agreement"), pursuant to which the Company and DTS, Inc. ("DTS") will each merge with indirect, wholly-owned subsidiaries of the Company, and thereby become wholly-owned subsidiaries of a new holding company (the "DTS Merger"). The consummation of the DTS Merger is subject to the satisfaction of a number of conditions, including approval of the DTS Merger and adoption of the DTS Merger Agreement by the stockholders of DTS. We may not be able to obtain such stockholder approval or satisfy such other conditions, in which case the consummation of the DTS Merger may be delayed or terminated. If the DTS Merger is not consummated or is materially delayed for this or any other reason, the execution of our announced business plans for the DTS Merger, including our goal to deliver the next generation of audio and imaging solutions to the global consumer electronics, mobile, and automotive markets, and to target new markets, would be disabled or delayed. In such event, our business and operations, and our stock price, may be adversely affected.

The success of the DTS Merger 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 Merger;
- costs and strain on our resources arising from our attempts at 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 Merger;
- adverse pricing trends or inability to achieve economies of scale as a result of the DTS Merger;
- 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 Merger, including a failure to improve and expand our management, systems, 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 Merger, which would adversely affect our business and operations.

The DTS Merger 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.

Upon closing of the DTS Merger, 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 DTS's business as well as impair our enforcement ability and licensing revenues.

The DTS Merger may not help to rationalize our disparate 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 Merger or already existing prior to the DTS Merger. As our business strategy and product markets continue to evolve, we therefore may dispose, discontinue, or divest product lines or business divisions. Disposing or discontinuing existing product lines or business divisions provides no assurance that our operating expenses will be reduced or will not cause us to incur material charges associated with such decision. 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 not be equal to at least 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, managing the expectations of, and maintaining good relations with, our 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 Merger 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.

We plan to finance the DTS Merger with existing cash balances and a newly-incurred, $600.0 million secured term loan. We may also incur additional revolving indebtedness in connection with, or following, the DTS Merger. Our financing plans will result not only in a substantial reduction of our cash and short-term investment balances, but the incurrence of substantial long-term indebtedness. This 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 will include restrictive and financial 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.

Litigation challenging the DTS Merger Agreement may prevent the DTS Merger from being consummated at all or within the expected timeframe.

A putative class action lawsuit has been filed against us and DTS, challenging our acquisition of DTS. The lawsuit seeks, among other things, to enjoin consummation of the DTS Merger. One of the conditions to the consummation of the DTS Merger is the absence of any injunctions or any other legal order prohibiting or restraining the DTS Merger. As such, if the plaintiff is successful in his efforts, then our acquisition of DTS may not be consummated at all or within the expected timeframe. For additional information regarding this litigation, see "Note 11 of Notes to Condensed Consolidated Financial Statements."

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 revenues 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 revenues, such as volume pricing adjustments. The effect of these terms may also cause our aggregate annual royalty revenues 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 revenues 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 in the future to enforce or protect our intellectual property and contract rights, including material litigation with existing licensees or strategic partners, which 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 use litigation to defend our patent rights, to seek payment for past infringement, and to seek future royalties for the use of our patents and technology. For example, on May 23, 2016 we filed six legal proceedings against Broadcom Corporation and certain of its affiliates, customers and distributors, alleging infringement of certain of our patents. We also may litigate to enforce our other intellectual property rights, to enforce the terms of our license agreements, to protect our trade secrets, to determine the validity and scope of the proprietary rights of others, and to defend against claims of infringement or invalidity. 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, 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 revenues. 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.

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 revenues 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 revenues 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 revenues 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 revenues 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 revenues 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 revenues.

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 revenues 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 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 revenues 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. For example, in January 2014 we announced that we were ceasing all manufacturing efforts for our MEMS-based autofocus technologies. In conjunction with this decision, we undertook a workforce reduction of over 300 employees and closed or transferred to third parties several of our facilities. We incurred impairment and other charges in the fourth quarter of 2013 and the first half of 2014 related to restructuring, impairment and other charges.

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.

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 industries. Our failure to acquire new technologies that are commercially viable in the semiconductor, consumer and communication electronics, and consumer imaging 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 FotoNation 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 FotoNation 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 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, including SK hynix Inc., Samsung Electronics, Co., Ltd. and Micron Technology, Inc., 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 revenues. 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 revenues 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.

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;
* changes in our royalties caused by changes in demand for products incorporating semiconductors or wireless devices that use our licensed technology;
* the amount of our product and service revenues;
* 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 revenues, cash flows or operating results are below the estimates or expectations of public market analysts and investors, our stock price could decline. In the past, securities class action litigation has often been brought against companies following a decline in the market price of their securities. If our stock price is volatile, we may become involved in this type of litigation in

the future. Any litigation could result in substantial costs and a diversion of management's attention and resources that are needed to successfully run our business.

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 September 30, 2016, 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 the first nine months of 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 Merger is anticipated to close in the fourth quarter of 2016, and the closing will result in a significant decrease in cash, cash equivalents and short-term investments, as well as the issuance of approximately $600.0 million in debt. Following the closing of this transaction, we are likely to decrease the amount of shares we have historically repurchased or suspend the program in future periods.

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 September 30, 2016, we held approximately $50.4 million in cash and cash equivalents and $345.9 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 Merger will result 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.

We operate in a highly cyclical electronics industry, which is subject to significant downturns.

The semiconductor industry 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 revenues. 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 revenues from our licensees and service customers in such downturns, our results of operations and cash flows will be materially and adversely impacted.

Changes in financial accounting or taxation standards, rules, practices or interpretation 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 often ambiguous. Changes to taxation rules, changes to financial accounting standards such as the proposed convergence to international financial reporting 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 may adopt the new standard under the full retrospective approach or the modified retrospective approach. Under the new standard, the current practice of many licensing companies of reporting revenues 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 revenues. We are still considering how the guidance will affect our financial reporting once finalized and we are still considering method of adoption.

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 revenues 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 revenues 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. For example, in 2012, we acquired manufacturing capabilities in Zhuhai, China and commenced building out a manufacturing facility in Hsinchu, Taiwan, and we subsequently closed the Zhuhai, China facility in 2013 and ceased operations in our Taiwan facility in 2014. To manage our growth effectively, we must continue to improve and expand our management, systems and financial controls. We also need to continue to expand, train and manage our employee base. 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.

From time to time, we may undertake to restructure our business, including the disposition of a business division, or the disposition or discontinuance of a product line. There are several factors that could cause a restructuring, a disposition or a discontinuance to have an adverse effect on our business, financial position, results of operations and cash flows. These include potential disruption of our operations and our information technology systems, the timing of development of our technology, the deliveries of products or services to our customers, changes in our workforce and other aspects of our business. In addition, such actions may increase the risk of claims or threats of lawsuits by our customers or former employees. In the case of a disposition of a product line, there may be a risk of not identifying a purchaser, or, if identified, the purchase price may be less than the net asset book value for the product line. Employee morale and productivity could also suffer and we may lose employees whom we want to keep. Any restructuring, disposition or discontinuance would require substantial management time and attention and may divert management from other important work. There are no assurances that a restructuring, disposal or discontinuance will result in future profitability. We may also incur other significant liabilities and costs including employee severance costs, relocation expenses, and impairment of lease obligations and long-lived assets. Moreover, we could encounter delays in executing any restructuring plans, which could cause further disruption and additional unanticipated expense.

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 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. We may agree to provide similar indemnity or support obligations to future licensees. 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. Difficulties relating to obtaining 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, which in the past has experienced severe earthquakes. We do not carry earthquake insurance. 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, patent portfolios 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 third quarter of 2016, we announced the execution of a definitive agreement to acquire DTS, Inc., in a transaction currently expected to close in the fourth quarter of 2016. Investigating businesses, assets, patent portfolios or technologies and integrating newly acquired businesses, assets, patent portfolios 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 revenues 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 value, 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 portfolios 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 revenues. This may lead to potential deferral of revenues due to new multiple-element revenue arrangements.

* There may be a significant time lag between acquiring a patent portfolio and recognizing revenue from those patent assets. During that time lag, material costs are likely to be incurred in preparing licensing or litigation efforts 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.

* 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 Ziptronix, Inc. acquisition completed in the third quarter of 2015, and the pending DTS Merger. We believe these strategic relationships and acquisitions will enhance the competitiveness and size of our current businesses and diversify 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, equity investments, in-process research and development, and goodwill. 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.

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

Changing laws, regulations and standards relating to corporate governance and public disclosure, new SEC regulations, requirements placed on non-financial companies under the Dodd-Frank Act and the NASDAQ Stock Market rules, have created uncertainty for companies. These laws, regulations and standards are often subject to varying interpretations. As a result, their application in practice may evolve as new guidance is provided by regulatory and governing bodies, which could result in higher costs necessitated by ongoing revisions to disclosure and governance practices. As a result of our efforts to comply with evolving laws, regulations and standards, we have increased and may continue to increase general and administrative expenses and diversion of management time and attention from revenue-generating activities to compliance activities.

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

Period	**Total number of shares purchased**	**Average price paid per share**	**Total number of shares purchased as part of our share repurchase program**	**Approximate dollar value of shares that may yet be purchased under our share repurchase program (a)**
(Shares in thousands)				
2016				
July	—	$ —	—	
August	184	32.60	184	
September	—	—	—	
Total	184	$ 32.60	184	$158.2 million

(a) Calculated as of September 30, 2016. 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. All repurchases in the three months ended September 30, 2016 were made under this plan.

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
2.1	Agreement and Plan of Merger, dated September 19, 2016, by and among Tessera Technologies, Inc., DTS, Inc., Tempe Holdco Corporation, Tempe Merger Sub Corporation and Arizona Merger Sub Corporation (filed as Exhibit 2.1 to the Registrant's Current Report on Form 8-K, filed on September 20, 2016, and incorporated herein by reference)
3.1	Restated Certificate of Incorporation (filed as Exhibit 3.2 to the Registrant's Registration Statement on Form S-1 (SEC File No. 333-108518), effective November 12, 2003, and incorporated herein by reference)
3.2	Amended and Restated Bylaws, dated September 14, 2011, as amended August 29, 2012, December 19, 2012, March 2, 2013, March 25, 2013, April 29, 2013 and May 22, 2013 (filed as Exhibit 3.2 to the Registrant's Quarterly Report on Form 10-Q, filed on August 6, 2013, and incorporated herein by reference)
3.3	Amendment to the Amended and Restated Bylaws, dated as of April 30, 2015 (filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K, filed on May 5, 2015, and incorporated herein by reference)
3.4	Amendment to the Amended and Restated Bylaws, dated as of January 9, 2016 (filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K, filed on January 14, 2016, and incorporated herein by reference)
10.1	Amended and Restated Commitment Letter, dated as of October 11, 2016, among Tessera Technologies, Inc., Royal Bank of Canada, BMO Capital Markets Corp. and Bank of Montreal (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed on October 12, 2016, 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: November 1, 2016

TESSERA TECHNOLOGIES, INC.

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 Tessera Technologies, Inc.;

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: November 1, 2016

/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 Tessera Technologies, Inc.;

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: November 1, 2016

/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 Tessera Technologies, Inc., a Delaware corporation (the "Company"), on Form 10-Q for the three months ended September 30, 2016 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
November 1, 2016

**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 Tessera Technologies, Inc., a Delaware corporation (the "Company"), on Form 10-Q for the three months ended September 30, 2016 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
November 1, 2016

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.