ELECTRONICS FOR IMAGING, INC.
2017 PROXY STATEMENT AND
2016 ANNUAL REPORT

ELECTRONICS FOR IMAGING, INC.
6750 Dumbarton Circle
Fremont, California 94555

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
To be held on June 7, 2017

TO THE STOCKHOLDERS:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders (the "*Annual Meeting*") of **ELECTRONICS FOR IMAGING, INC.,** a Delaware corporation (the "*Company*"), will be held on June 7, 2017 at 9 a.m., Pacific Time, at the Company's corporate headquarters, 6750 Dumbarton Circle, Fremont, California 94555 for the following purposes:

1. To elect six (6) directors to hold office until the next annual meeting or until their successors are duly elected and qualified.
2. To approve a non-binding advisory proposal on executive compensation.
3. To provide an advisory vote to determine whether a non-binding advisory vote on executive compensation should occur every one, two or three years.
4. To approve the 2017 Equity Incentive Plan.
5. To ratify the appointment of the independent registered public accounting firm for the Company for the fiscal year ending December 31, 2017.
6. To transact such other business as may properly come before the meeting or any adjournment or postponement thereof.

The foregoing items of business are more fully described in the Proxy Statement accompanying this Notice. The Board of Directors has approved the proposals described in the Proxy Statement and recommends that you vote "*FOR*" the election of all nominees for director in Proposal 1 and "*FOR*" Proposals 2, 4, and 5 and for "1 YEAR" in Proposal 3.

Only stockholders of record at the close of business on April 24, 2017 are entitled to notice of and to vote at the Annual Meeting and at any adjournment or postponement thereof.

All stockholders are cordially invited to attend the Annual Meeting in person. However, to ensure your representation at the Annual Meeting, you are urged to submit your proxy electronically, by telephone or by marking, signing, dating and returning the enclosed proxy for that purpose. Any stockholder attending the Annual Meeting may vote in person even if he or she has returned a proxy.

Sincerely,

/S/ ALEX GRAB

Alex Grab
Secretary

Fremont, California
April 28, 2017

YOUR VOTE IS IMPORTANT.
IN ORDER TO ENSURE YOUR REPRESENTATION AT THE MEETING,
YOU ARE REQUESTED TO SUBMIT YOUR PROXY ELECTRONICALLY OR BY TELEPHONE,
AS DESCRIBED UNDER *"SUBMISSION OF PROXIES; INTERNET AND TELEPHONE VOTING"*
IN THE ATTACHED PROXY STATEMENT, OR
COMPLETE, SIGN AND DATE THE ENCLOSED PROXY
AS PROMPTLY AS POSSIBLE AND RETURN IT IN THE ENCLOSED ENVELOPE.

ELECTRONICS FOR IMAGING, INC.

PROXY STATEMENT

FOR THE ANNUAL MEETING OF STOCKHOLDERS

June 7, 2017

INFORMATION CONCERNING SOLICITATION AND VOTING

General

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors (the "Board of Directors" or the "Board") of **ELECTRONICS FOR IMAGING, INC.,** a Delaware corporation (the "Company"), for use at the Annual Meeting of Stockholders to be held on June 7, 2017 at 9 a.m., Pacific Time (the "Annual Meeting"), or at any adjournment or postponement thereof. The Annual Meeting will be held at the Company's corporate headquarters, 6750 Dumbarton Circle, Fremont, California 94555. The Company intends to mail this Proxy Statement and accompanying proxy card on or about April 28, 2017 to stockholders entitled to vote at the Annual Meeting.

At the Annual Meeting, the stockholders of the Company will be asked: (1) to elect six (6) directors to hold office until the next annual meeting or until their successors are duly elected and qualified; (2) to provide a non-binding advisory vote to approve the Company's executive compensation program; (3) to provide an advisory vote to determine whether a non-binding advisory vote on executive compensation should occur every one, two or three years; (4) to approve the 2017 Equity Incentive Plan; (5) to ratify the appointment of the Company's independent registered public accounting firm for the Company for the fiscal year ending December 31, 2017; and (6) to transact such other business as may properly come before the meeting or any adjournment or postponement thereof. All proxies that are properly completed, signed and returned to the Company or properly submitted electronically or by telephone prior to the Annual Meeting will be voted.

Voting Rights and Outstanding Shares

Only stockholders of record at the close of business on April 24, 2017 (the "Record Date") are entitled to receive notice of and to vote at the Annual Meeting. As of the Record Date, the Company had outstanding and entitled to vote 46,467,840 shares of common stock. The holders of a majority of the shares outstanding and entitled to vote at the Annual Meeting constitute a quorum. Therefore, the Company will need at least 23,233,921 shares entitled to vote present in person, by telephone or by proxy at the Annual Meeting for a quorum to exist. Each holder of record of common stock on the Record Date will be entitled to one vote per share on all matters to be voted upon by the stockholders. There is no cumulative voting for the election of directors.

All votes will be tabulated by the inspector of election appointed for the Annual Meeting, who will separately tabulate affirmative and negative votes, abstentions, withheld votes, and broker non-votes. Abstentions, withheld votes, and broker non-votes are counted as present for purposes of establishing a quorum for the transaction of business at the Annual Meeting. Abstentions represent a stockholder's affirmative choice to decline to vote on a proposal. Broker non-votes occur when a broker, bank, or other nominee holding shares for a beneficial owner does not vote on a particular matter because such broker, bank, or other nominee does not have discretionary authority to vote on that matter and has not received voting instructions from the beneficial owner. Brokers, banks, and other nominees typically do not have discretionary authority to vote on non-routine matters. Under the rules of the New York Stock Exchange (the "NYSE"), as amended (the "NYSE Rules"), which apply to all NYSE-licensed brokers, brokers have discretionary authority to vote on routine matters when they have not received timely voting instructions from the beneficial owner.

Stockholders' choices for Proposal One (election of directors) are limited to "for" and "withhold." A plurality of the shares of common stock voting in person or by proxy is required to elect each of the six

(6) nominees for director under Proposal One. A plurality means that the six (6) nominees receiving the largest number of votes cast (votes "for") will be elected. Because the election of directors under Proposal One is considered to be a non-routine matter under the NYSE Rules, if you do not instruct your broker, bank, or other nominee on how to vote the shares in your account for Proposal One, brokers will not be permitted to exercise their voting authority and uninstructed shares may constitute broker non-votes. Abstentions and broker non-votes will not be counted in determining the outcome of Proposal One because the election of directors is based on the votes actually cast. Withheld votes will be considered for purposes of the Company's "majority withheld vote" policy as set forth in the Company's Board of Directors Guidelines (the "Board of Directors Guidelines") and as discussed further under Proposal One. The Board of Directors Guidelines can be found at the Company's website at www.efi.com.

The affirmative vote of a majority of shares entitled to vote that are present in person or by proxy is required to approve Proposal Two (advisory vote on executive compensation) and Proposal Four (approval of the 2017 Equity Incentive Plan). Because the votes under Proposal Two and Proposal Four are considered to be non-routine matters under the NYSE Rules, if you do not instruct your broker, bank, or other nominee on how to vote the shares in your account for Proposal Two or Proposal Four, brokers will not be permitted to exercise their voting authority and uninstructed shares may constitute broker non-votes. Abstentions will have the same effect as negative votes on these proposals because they represent votes that are present, but not cast. Although broker non-votes are considered present for quorum purposes, they are not considered entitled to vote, and will not be counted in determining the outcome of Proposal Two or the outcome of Proposal Four.

Stockholders' choices for Proposal Three (frequency of advisory vote on executive compensation) are limited to "1 year," "2 years," "3 years" and "abstain." If no option receives the affirmative vote of at least a majority of the shares present in person or represented by proxy and entitled to vote on the proposal at the Annual Meeting, then the Board of Directors will consider the option receiving the highest number of votes as the preferred option of the stockholders. Abstentions will not be counted in determining the frequency option receiving the highest number of votes. Because the advisory vote under Proposal Three is considered to be a non-routine matter under the NYSE Rules, if you do not instruct your broker, bank or other nominee on how to vote the shares in your account for Proposal Three, brokers will not be permitted to exercise their voting authority and uninstructed shares may constitute broker non-votes. Broker non-votes will not be counted in determining the outcome of Proposal Three.

The affirmative vote of a majority of shares entitled to vote that are present in person or by proxy is required to ratify the selection of the independent registered public accounting firm for the fiscal year ending December 31, 2017 under Proposal Five (ratification of appointment of auditors). Abstentions will have the same effect as negative votes on this proposal because they represent votes that are present, but not cast. Proposal Five is considered to be a routine matter and, accordingly, if you do not instruct your broker, bank or other nominee on how to vote the shares in your account for Proposal Five, brokers will be permitted to exercise their discretionary authority to vote for the ratification of the appointment of auditors.

Please be advised that Proposal Two (advisory vote on executive compensation), Proposal Three (frequency of advisory vote on executive compensation) and Proposal Five (ratification of appointment of auditors) are advisory only and not binding on the Company. Our Board of Directors will consider the outcome of the vote on each of these proposals in considering what action, if any, should be taken in response to the advisory vote by stockholders.

Adjournment of Meeting

In the event that sufficient votes in favor of the proposals are not received by the date of the Annual Meeting, the persons named as proxies may propose one or more adjournments of the Annual Meeting to permit further solicitation of proxies. Any such adjournment will require the affirmative vote of a majority of shares entitled to vote present in person or by proxy at the Annual Meeting.

Submission of Proxies; Internet and Telephone Voting

If you hold shares as a registered stockholder in your own name, you should complete, sign and date the enclosed proxy card as promptly as possible and return it using the enclosed envelope. If your completed proxy card is received prior to or at the Annual Meeting, your shares will be voted in accordance with your voting instructions. If you sign and return your proxy card but do not give voting instructions, your shares will be voted FOR (1) the election of the Company's six (6) nominees as directors; (2) the advisory vote on executive compensation; (3) approval of the 2017 Equity Incentive Plan; and (4) the ratification of the appointment of the independent registered public accounting firm for the Company for the fiscal year ending December 31, 2017; "1YEAR" for the frequency of the advisory vote on executive compensation; and (iii) as the proxy holders deem advisable, in their discretion, on other matters that may properly come before the Annual Meeting. If you hold shares through a bank or brokerage firm, the bank or brokerage firm will provide you with separate voting instructions on a form you will receive from them. Many such firms make telephone or internet voting available, but the specific processes available will depend on those firms' individual arrangements.

Solicitation

The cost of preparing, assembling, printing, and mailing the Proxy Statement, the Notice of Annual Meeting, and the enclosed proxy, as well as the cost of soliciting proxies relating to the Company's proposals for the Annual Meeting, will be borne by the Company. The Company will request banks, brokers, dealers, and voting trustees or other nominees to solicit their customers who are beneficial owners of shares listed of record in names of nominees and will reimburse such nominees for the reasonable out-of-pocket expenses of such solicitations. The original solicitation of proxies by mail may be supplemented by telephone, facsimile, telegram, email and personal solicitation by directors, officers and regular employees of the Company or, at the Company's request, a proxy solicitation firm. No additional compensation will be paid to directors, officers or other regular employees of the Company for such services, but a proxy solicitation firm will be paid a customary fee if it renders solicitation services.

Revocability of Proxies

Any proxy given pursuant to this solicitation may be revoked by the person giving it at any time before its use by delivering to the Secretary of the Company at the Company's principal executive office, 6750 Dumbarton Circle, Fremont, California 94555, a written notice of revocation or a duly executed proxy bearing a later date, or by attending the Annual Meeting and voting in person. Attendance at the Annual Meeting will not, by itself, revoke a proxy.

Stockholder Proposals To Be Presented at Next Annual Meeting

The deadline for submitting a stockholder proposal for inclusion in the Company's proxy statement and form of proxy for the Company's annual meeting of stockholders to be held in 2018, pursuant to Securities and Exchange Commission (the "SEC") Rule 14a-8, is currently expected to be December 29, 2017. The Company's amended and restated bylaws (the "Bylaws") also establish a deadline with respect to discretionary voting for submission of stockholder proposals that are not intended to be included in the Company's proxy statement. For nominations of persons for election to the Board of Directors and other business to be properly brought before the 2018 annual meeting by a stockholder, notice must be delivered to or mailed and received at the principal executive offices of the Company not earlier than the close of business on February 7, 2018 and not later than the close of business on March 9, 2018 (the "Discretionary Vote Deadline"). These deadlines are subject to change if the date of the 2018 annual meeting is more than 30 calendar days before or more than 60 calendar days after the date of the Annual Meeting. If a stockholder gives notice of such proposal after the Discretionary Vote Deadline, the Company's proxy holders will be allowed to use their discretionary voting authority to vote the shares they represent as the Board of Directors may recommend, which may include a vote against the stockholder proposal when and if the proposal is raised at the Company's 2018 annual meeting.

Additional Copies

The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016 (the "Annual Report") will be mailed concurrently with the mailing of the Notice of Annual Meeting and Proxy Statement to all stockholders entitled to notice of and to vote at the Annual Meeting. Except to the extent expressly incorporated by reference into this Proxy Statement, the Annual Report does not constitute, and should not be considered, a part of this proxy solicitation material.

If you would like a copy of the Annual Report, the Company will provide one to you free of charge upon your written request to Investor Relations at Electronics For Imaging, Inc., 6750 Dumbarton Circle, Fremont, California 94555.

IMPORTANT NOTICE REGARDING INTERNET AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON June 7, 2017: The Company's Proxy Statement dated April 28, 2017 and Annual Report are available electronically at http://ir.efi.com/proxy.cfm.

PROPOSAL ONE

ELECTION OF DIRECTORS

Nominees

There are six (6) nominees for election at the Annual Meeting. Each nominee currently serves as a director and, was elected by stockholders at the 2016 annual meeting. Votes cannot be cast, whether in person or by proxy, for more individuals than the six (6) nominees named in this Proxy Statement. Following the Annual Meeting, the Board of Directors will consist of six (6) members. Although fewer nominees are named than the number fixed by the Bylaws, proxies cannot be voted for a greater number of persons than the number of nominees named. The Board may elect additional members in the future in accordance with the Bylaws.

Unless otherwise instructed, the proxy holders will vote the proxies received by them for the six (6) nominees named below. In the event that any Board of Director's nominee is unable or declines to serve as a director at the time of the Annual Meeting, the proxies will be voted for the nominee who shall be designated by the present Board of Directors to fill the vacancy. In the event that additional persons are nominated for election as directors by the present Board of Directors, the proxy holders intend to vote all proxies received by them in such a manner as will assure the election of as many of the nominees listed below as possible. Each person has been recommended for nomination by the Nominating and Governance Committee of the Board of Directors and has been nominated by the Board of Directors for election. Each person nominated for election has agreed to serve, and the Company is not aware of any nominee who will be unable or will decline to serve as a director. The term of office for each person elected as a director will continue until the next annual meeting of stockholders or until his successor has been duly elected and qualified, or until such director's earlier death, resignation or removal.

As set forth in the Company's Board of Directors Guidelines and the Nominating and Governance Committee Charter, the Company has a majority voting policy for the election of directors in an uncontested election. Pursuant to this policy, in the event that a nominee for director in an uncontested election receives more "withheld" votes for his or her election than "for" votes, the director must submit a resignation to the Board of Directors. The Nominating and Governance Committee of the Board of Directors will evaluate and make a recommendation to the Board of Directors with respect to the offered resignation. The Board of Directors will take action on the recommendation within 90 days following certification of the stockholder vote. No director who tenders a resignation may participate in the Nominating and Governance Committee's or the Board of Directors' consideration of the matter. The Company will publicly disclose the Board of Directors' decision including, as applicable, the reasons for rejecting a resignation.

The names of the nominees, each of whom is currently a director of the Company elected by the stockholders or appointed by the Board of Directors, and certain information about them as of April 24, 2017 are set forth below.

Name of Nominee and Principal Occupation	Age	Director Since
Eric Brown(3) Self-Employed	51	2011
Gill Cogan(1)(2) Founding Partner, Opus Capital Ventures LLC	65	1992
Guy Gecht Chief Executive Officer and President of the Company	51	2000
Thomas Georgens(3) Self-Employed	57	2008
Richard A. Kashnow(2)(3) Consultant, Self-Employed	75	2008
Dan Maydan(1)(2) Retired	81	1996

(1) Member of the Compensation Committee.
(2) Member of the Nominating and Governance Committee.
(3) Member of the Audit Committee.

Mr. Brown has served as a director of the Company since April 2011. Mr. Brown served as Chief Financial Officer and Chief Operating Officer of Tanium Inc, an enterprise software company from April 2014 to March 2017. Previously, Mr. Brown served as Chief Operating Officer, Chief Financial Officer, and Executive Vice President of Polycom, Inc. from February 2012 to March 2014. Prior to that Mr. Brown served as Executive Vice President, Chief Financial Officer of Electronic Arts, Inc., an interactive entertainment software company, from April 2008 to February 2012. From January 2005 until March 2008, Mr. Brown worked at McAfee, Inc., a security technology company, serving as Chief Operating Officer and Chief Financial Officer from March 2006 until March 2008 and as Vice President and Chief Financial Officer from January 2005 until March 2006. Mr. Brown was the President and Chief Financial Officer of MicroStrategy Incorporated, a business intelligence software provider, from 2000 until 2004. From 1998 to 2000, Mr. Brown worked at Electronic Arts as Vice President and Chief Operating Officer of Electronic Arts Redwood Shores (California) studio division. From 1995 to 1998, Mr. Brown was co-founder and Chief Financial Officer of Datasage, Inc., a Boston-based enterprise technology company. From September 2004 until December 2005, Mr. Brown served on the board of directors and the audit committee of Verity, Inc., a provider of business search and process management software, that was acquired by Autonomy Corporation plc. Mr. Brown received a B.S. in Chemistry from the Massachusetts Institute of Technology and a M.B.A from the MIT Sloan School of Management. Mr. Brown's experience with the oversight of worldwide business and finance operations with responsibility for public company financial reporting, balance sheet management, audit, and tax matters provides the Board of Directors with a broad range of expertise on various operational and financial issues facing a global organization.

Mr. Cogan has served as a director of the Company since 1992 and as Chairman of the Board of Directors since June 28, 2007. Mr. Cogan is a founding Partner of Opus Capital Ventures LLC, a venture capital firm established in 2005. Previously, he was the Managing Partner of Lightspeed Venture Partners, a venture capital firm, from 2000 to 2005. From 1991 until 2000, Mr. Cogan was Managing General Partner of Weiss, Peck & Greer Venture Partners, L.P., a venture capital firm. From 1986 to 1990, Mr. Cogan was a partner of Adler & Company, a venture capital group handling technology-related investments. From 1983 to 1985, he was Chairman and Chief Executive Officer of Formtek, Inc., an imaging and data management computer company, whose products were based upon technology developed at Carnegie-Mellon University. Mr. Cogan is currently a director of several privately held companies, including AlertEnterprise, Space-Time-Insight, Payfone, Spider Cloud, WorkBoard, Panzora, Cloud4Wi, and GainSpan. Mr. Cogan holds a B.S. and an M.B.A. from the

University of California at Los Angeles. Mr. Cogan's experience in venture capital firms brings him extensive knowledge of technology companies that is valuable to the Board of Directors' discussions of the Company's technology-related investments.

Mr. Gecht was appointed Chief Executive Officer of the Company on January 1, 2000 and was also appointed President of the Company on May 11, 2012, a position he previously held from July 1999 to January 2000. From January 1999 to July 1999, he was Vice President and General Manager of Fiery products of the Company. From October 1995 through January 1999, he served as Director of Software Engineering. Prior to joining the Company, Mr. Gecht was Director of Engineering at Interro Systems, Inc., a technology company, from 1993 to 1995. From 1991 to 1993, he served as Software Manager of ASP Computer Products, a networking company, and from 1990 to 1991 he served as Manager of Networking Systems for Apple Israel, a technology company. From 1985 to 1990, he served as an officer in the Israeli Defense Forces, managing an engineering development team, and later was an acting manager of one of the IDF high-tech departments. Mr. Gecht currently serves as a member of the board of directors, audit committee and compensation committee of Check Point Software Technologies Ltd., a global information technology security company, listed on the NASDAQ Global Select Market. Mr. Gecht holds a B.S. in Computer Science and Mathematics from Ben Gurion University in Israel. Mr. Gecht's different previous roles within the Company, along with his experience as the Company's Chief Executive Officer for over fifteen (15) years, give him unique insights into the Company's challenges, opportunities and operations.

Mr. Georgens has served as a director of the Company since 2008. From April 2014 until May 2015, Mr. Georgens served as Chief Executive Officer and Chairman of the Board of Directors of NetApp, Inc., a provider of data management solutions. Previously, from August 2009 until April 2014, Mr. Georgens served as Chief Executive Officer, President and Director of NetApp. Prior to becoming its Chief Executive Officer, from February 2008 to August 2009, Mr. Georgens was President and Chief Operating Officer of NetApp, Inc. From January 2007 to January 2008, Mr. Georgens was Executive Vice President, Product Operations and from October 2005 to January 2007, he was Executive Vice President and General Manager of Enterprise Storage Systems for NetApp, Inc. From 1996 to 2005, Mr. Georgens served LSI Logic and its subsidiaries, including Engenio, in various capacities, including as President, Chief Executive Officer, Vice President and General Manager, and Director. Prior to working with LSI Logic and its subsidiaries, Mr. Georgens spent 11 years at EMC Corporation in a variety of engineering and marketing positions. Mr. Georgens currently serves as a director of Autodesk, Inc., a public company listed on the NASDAQ Global Select Market. Mr. Georgens graduated from Rensselaer Polytechnic Institute with B.S. and M.Eng. degrees in Computer and Systems Engineering, and also holds an M.B.A. from Babson College. Mr. Georgens's prior role of Chief Executive Officer of a NASDAQ-100 company brings to the Board of Directors the perspective of a leader who faced similar economic, social and governance issues. In addition, his previous role provides Mr. Georgens with insight in the preparation and review of financial statements of a public company.

Mr. Kashnow has served as a director of the Company since 2008. Since 2003, Mr. Kashnow has been self-employed as a consultant. From 1999 until 2003, Mr. Kashnow served as President of Tyco Ventures, the venture capital unit he established for Tyco International, Inc., a diversified manufacturing and services company. From 1995 to 1999, he served as Chairman, Chief Executive Officer, and President of Raychem Corporation, a global technology materials company. He started his career as a physicist at General Electric's Corporate Research and Development Center in 1970. During his seventeen years with General Electric, he progressed through a series of technical and general management assignments. He served in the U.S. Army between 1968 and 1970 and completed his active duty tour as a captain. Until December 2012, Mr. Kashnow served on the board of directors of Ariba, Inc., which was a public company providing on-demand spend management solutions prior to its acquisition by SAP AG in October 2012. Until March 2008, he served as Chairman of ActivIdentity, a public software security company. Until September 2007, he also served as Chairman of Komag, Inc., a public data storage media company, which was acquired at that time by Western Digital Corporation. Until September 2006, he served on the board of directors of Parkervision, Inc., a radio frequency technology company, and as Chairman of its Compensation Committee. Mr. Kashnow received a Ph.D. in Physics from Tufts University in

1968 and a B.S. in Physics from Worcester Polytechnic Institute in 1963. Mr. Kashnow's experience in supervising a principal financial officer as the former Chief Executive Officer of Raychem Corporation provides the Board of Directors with a perspective of an executive involved in the preparation and review of financial statements of a public company.

Dr. Maydan has served as a director of the Company since 1996. Dr. Maydan was President of Applied Materials Inc., a semiconductor manufacturing equipment company, from January 1994 to April 2003 and a member of that company's board of directors from June 1992 to October 2005. From March 1990 to January 1994, Dr. Maydan served as Applied Materials' Executive Vice President, with responsibility for all product lines and new product development. Before joining Applied Materials in September 1980, Dr. Maydan spent thirteen years managing new technology development at Bell Laboratories during which time he pioneered laser recording of data on thin-metal films and made significant advances in photolithography and vapor deposition technology for semiconductor manufacturing. In 1998, Dr. Maydan was elected to the National Academy of Engineering. He currently serves on the boards of directors of privately held companies. Dr. Maydan received his B.S. and M.S. degrees in Electrical Engineering from Technion, the Israel Institute of Technology, and his Ph.D. in Physics from Edinburgh University in Scotland. Dr. Maydan's broad experience in technology, innovation, marketing and operations provides the Board of Directors with a global perspective on the issues faced by manufacturing and technology companies.

Vote Required

Subject to the "majority withheld votes" policy in the Board of Directors Guidelines, directors are elected if they receive a plurality of the votes present in person or represented by proxy at the Annual Meeting. Accordingly, the six (6) nominees receiving the largest number of votes cast (votes "for") will be elected.

Recommendation of the Board of Directors

The Company's Board of Directors recommends a vote "FOR" the election of all six (6) nominees listed above. Proxies received by the Company will be voted "FOR" the election of all nominees listed above unless the stockholder specifies otherwise in the proxy.

MEETINGS AND COMMITTEES OF THE BOARD OF DIRECTORS

Meetings of Board of Directors and Committees

The Board of Directors of the Company held a total of six (6) meetings in 2016. The Board of Directors has established the following committees, among others, to assist the Board of Directors in discharging its duties: (i) an Audit Committee, (ii) a Compensation Committee and (iii) a Nominating and Governance Committee (collectively, the "Board Committees"). Current copies of the charters for the Board Committees can be found on the Company's website at www.efi.com. Each director attended 100% of the total number of meetings of the Board of Directors and of the Board Committees upon which such director served during 2016.

Audit Committee

The Audit Committee currently consists of Directors Brown (Chairman), Georgens and Kashnow. The Audit Committee held ten (10) meetings in 2016. The Audit Committee oversees the accounting and financial reporting processes of the Company, the audits of the financial statements of the Company, assists the Board of Directors in oversight and monitoring of the integrity of the Company's financial statements, the Company's compliance with certain legal and regulatory requirements, the independent auditor's qualifications, independence and performance, and the Company's systems of internal controls. The Audit Committee also approves the engagement of and the services to be performed by the Company's independent auditors. The Board of Directors has determined that all members of the Audit Committee are "independent" as that term is defined in

Rule 5605(a)(2) of the NASDAQ Listing Rules (the "NASDAQ Rules") and also meet the additional criteria for independence of Audit Committee members set forth in Section 10A(m) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). In addition, the Board of Directors has determined that each member of the Audit Committee is an "audit committee financial expert" as defined by the SEC.

The Audit Committee oversees the Company's Ethics Program, which presently includes, among other things, the Company's Code of Business Conduct and Ethics, the Company's Code of Ethics for the Management Team, the Company's Code of Ethics for the Accounting and Finance Team and the Company's Code of Ethics for the Sales Team (collectively, the "Codes"), an internal audit function responsible for receiving and investigating complaints, a 24-hour global toll-free hotline and an internal website whereby employees can anonymously submit complaints via email. The Company's Codes can be found on the Company's website at www.efi.com. As further set forth below, the Audit Committee also oversees the Company's risk assessment function.

We intend to disclose any amendment to the Codes, or waiver from, certain provisions of the Codes as applicable for our directors and executive officers, including our principal executive officer, principal financial officer, principal accounting officer or controller or persons performing similar functions, by posting such information on our website, at the address specified above.

Compensation Committee

The Compensation Committee currently consists of Directors Cogan (Chairman) and Maydan. The Compensation Committee held ten (10) meetings in 2016. The Board of Directors has determined that all members of the Compensation Committee are "independent" as that term is defined in Rule 5605(a)(2) of the NASDAQ Rules and also meet the additional criteria for independence of Compensation Committee members set forth in Rule 5605(d)(2) of the NASDAQ Rules. The Compensation Committee reviews and approves the Company's executive compensation policy, administers the Company's stock plans and considers compensation consultant, counsel and other adviser conflict of interest. The Compensation Committee also reviews the Compensation Discussion and Analysis contained in the Company's proxy statements and prepares and approves the Compensation Committee Report for inclusion in the Company's proxy statements.

Nominating and Governance Committee

The Nominating and Governance Committee currently consists of Directors Cogan, Kashnow (Chairman) and Maydan. The Nominating and Governance Committee held two (2) meetings in 2016. The Board of Directors has determined that all members of the Nominating and Governance Committee are "independent" as that term is defined in Rule 5605(a)(2) of the NASDAQ Rules. The Nominating and Governance Committee develops and recommends governance principles, recommends director nominees to the Board of Directors and considers the resignation offers of any nominee for director, in accordance with its charter and the Company's Board of Directors Guidelines.

Pursuant to our Board of Directors Guidelines and the charter of the Nominating and Governance Committee, the Nominating and Governance Committee oversees an annual evaluation of the performance of the Board and each of its committees. The evaluation process is designed to facilitate ongoing, systematic examination of the Board's effectiveness and accountability, and to identify opportunities to improve its operations and procedures. In April 2017, the Board completed an evaluation process focusing on the effectiveness of the performance of the Board as a whole. Each standing committee conducted a separate evaluation of its own performance and of the adequacy of its charter and reported to the Board on the results of its evaluation.

Consideration of Director Nominees

Stockholder Nominees

The policy of the Nominating and Governance Committee is to consider properly submitted stockholder nominations for candidates for membership on the Board of Directors as described below under "Identifying and Evaluating Nominees for Directors." Properly communicated stockholder recommendations will be considered in the same manner as recommendations received from other sources. In evaluating such nominations, the Nominating and Governance Committee seeks to achieve a balance of knowledge, experience and capability on the Board of Directors and to address the membership criteria set forth under "Director Qualifications."

Stockholders may recommend individuals for consideration by submitting the materials set forth below to the Company addressed to the Nominating and Governance Committee at the Company's corporate headquarters. To be timely, the written materials must be submitted within the time provided by the advance notice provisions in the Bylaws.

The written materials must include: (1) the name(s) and address(es) of the stockholder(s) providing the notice, as they appear in the Company's books, and of the other Proposing Persons (as defined below), (2) any Disclosable Interests (as defined in the Bylaws) of the stockholder(s) providing the notice (or, if different, the beneficial owner on whose behalf such notice is given) and/or each other Proposing Person, (3) all information with respect to such proposed nominee that would be required to be set forth in a stockholder's notice if such proposed nominee were a Proposing Person, (4) all information relating to such proposed nominee that is required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors in a contested election pursuant to Section 14 under the Exchange Act and the rules and regulations thereunder, (5) a description of all direct and indirect compensation and other material monetary agreements, arrangements and understandings during the past three years, and any other material relationships, between or among the stockholder providing the notice (or, if different, the beneficial owner on whose behalf such notice is given) and/or any Proposing Person, on the one hand, and each proposed nominee, his or her respective affiliates and associates and any other persons with whom such proposed nominee (or any of his or her respective affiliates and associates) is Acting in Concert (as defined below), on the other hand, including, without limitation, all information that would be required to be disclosed pursuant to Item 404 under Regulation S-K if such stockholder or beneficial owner, as applicable, and/or such Proposing Person were the "registrant" for purposes of such rule and the proposed nominee were a director or executive officer of such registrant, and (6) such other information (including one or more accurately completed and executed questionnaires and executed and delivered agreements) as may reasonably be required by the Company to determine the eligibility of such proposed nominee to serve as an independent director of the Company or that could be material to a reasonable stockholder's understanding of the independence or lack of independence of such proposed nominee.

For purposes of the information required to be disclosed in the written materials described above, the term "Proposing Person" means (i) the stockholder providing the notice of the nomination proposed to be made at the meeting, (ii) the beneficial owner, if different, on whose behalf the nomination proposed to be made at the meeting is made, (iii) any affiliate or associate of such beneficial owner (as such terms are defined in Rule 12b-2 under the Exchange Act) and (iv) any other person with whom such stockholder or such beneficial owner (or any of their respective affiliates or associates) is Acting in Concert.

A person shall be deemed to be "Acting in Concert" with another person for purposes of the information required to be disclosed in the written materials described above if such person knowingly acts (whether or not pursuant to an express agreement, arrangement or understanding) in concert with, or towards a common goal relating to the management, governance or control of the Company in parallel with, such other person where (i) each person is conscious of the other person's conduct or intent and this awareness is an element in their decision-making process and (ii) at least one additional factor suggests that such persons intend to act in concert or in parallel, which such additional factors may include, without limitation, exchanging information (whether publicly or privately), attending meetings, conducting discussions, or making or soliciting invitations to act in concert or in parallel; *provided*, that a person shall not be deemed to be Acting in Concert with any other person solely as a result of the solicitation or receipt of revocable proxies from such other person in connection with a public proxy solicitation pursuant to, and in accordance with, the Exchange Act. A person who is Acting in Concert with another person shall be deemed to be Acting in Concert with any third party who is also acting in concert with such other person.

Any director nominations proposed by stockholders for consideration by the Nominating and Governance Committee should be addressed to:

Electronics For Imaging, Inc.
Attention: Nominating and Governance Committee
c/o Alex Grab
6750 Dumbarton Circle
Fremont, CA 94555

Director Qualifications

The Nominating and Governance Committee has established the following minimum criteria for evaluating prospective Board of Director candidates:

- Reputation for integrity, strong moral character and adherence to high ethical standards.
- Holds or has held a generally recognized position of leadership in the community and/or chosen field of endeavor, and has demonstrated high levels of accomplishment.
- Demonstrated business acumen and experience, and ability to exercise sound business judgment and common sense in matters that relate to the current and long-term objectives of the Company.
- Ability to read and understand basic financial statements and other financial information pertaining to the Company.
- Commitment to understand the Company and its business, industry and strategic objectives.
- Commitment and ability to regularly attend and participate in meetings of the Board of Directors, Board Committees and stockholders, the number of other company boards on which the candidate serves and the ability to generally fulfill all responsibilities as a director of the Company.
- Willingness to represent and act in the interests of all stockholders of the Company rather than the interests of a particular group.
- Good health and ability to serve.
- For prospective non-employee directors, independence under applicable standards of the SEC and the NASDAQ Rules, and the absence of any conflict of interest (whether due to a business or personal relationship) or legal impediment to, or restriction on, the nominee serving as a director.
- Willingness to accept the nomination to serve as a director of the Company.

Other Factors for Potential Consideration

The Nominating and Governance Committee will also consider the following factors in connection with its evaluation of each prospective nominee:

- Whether the prospective nominee will foster a diversity of skills and experiences.
- Whether the nominee possesses the requisite education, training and experience to qualify as “financially literate” or as an “audit committee financial expert” under applicable rules of the SEC and the NASDAQ Rules.

- Composition of the Board of Directors and whether the prospective nominee will add to or complement the Board of Director's existing strengths.

The Nominating and Governance Committee does not have a formal policy with respect to diversity; however, the Board of Directors and the Nominating and Governance Committee believe that it is essential that our directors represent diverse viewpoints, skills, education and professional experience. In considering candidates for the Board of Directors, the Nominating and Governance Committee considers the entirety of each candidate's credentials in the context of these standards.

All of our directors bring to the Board of Directors executive leadership experience derived from their service as executives and, in most cases, chief executive officers of large corporations. As a group, they bring extensive board experience and several decades of diverse and extensive business and technical experience. The process undertaken by the Nominating and Governance Committee in identifying and evaluating qualified director candidates is described below. Certain individual qualifications and skills of our directors that contribute to the Board of Directors' effectiveness as a whole are described above, under each director's biographical information.

Identifying and Evaluating Nominees for Directors

The Nominating and Governance Committee initiates the process by preparing a slate of potential candidates who, based on their biographical information and other information available to the Nominating and Governance Committee, appear to meet the criteria specified above and/or who have specific qualities, skills or experience being sought, based on input from the full Board of Directors.

- *Outside Advisors*. The Nominating and Governance Committee may engage a third party search firm or other advisors to assist in identifying prospective nominees.

- *Nomination of Incumbent Directors*. The re-nomination of existing directors should not be viewed as automatic, but should be based on continuing qualification under the criteria set forth above.

  For incumbent directors standing for re-election, the Nominating and Governance Committee will assess the incumbent director's performance during his or her term, including the number of meetings attended, level of participation and overall contribution to the Company, the number of other company boards on which the individual serves, composition of the Board of Directors at that time and any changed circumstances affecting the individual director which may bear on his or her ability to continue to serve on the Board of Directors.

- *Management Directors*. The number of officers or employees of the Company serving at any time on the Board of Directors should be limited such that, at all times, a majority of the directors is "independent" under applicable standards of the SEC and the NASDAQ rules.

After reviewing appropriate biographical information and qualifications, first-time candidates will be interviewed by at least one member of the Nominating and Governance Committee and by the Company's Chief Executive Officer. Upon completion of the above procedures, the Nominating and Governance Committee will determine the list of potential candidates to be recommended to the full Board of Directors for nomination at an annual meeting or appointment to the Board of Directors between annual meetings. The Board of Directors will select the slate of nominees only from candidates identified, screened and approved by the Nominating and Governance Committee.

In accordance with the Company's "majority withheld vote" policy, the Nominating and Governance Committee will also consider the resignation offer of any nominee for director who, in an uncontested election, receives a greater number of votes "withheld" from his or her election than votes "for" such election, and recommend to the Board of Directors the action it deems appropriate to be taken with respect to such offered resignation.

DIRECTOR COMPENSATION

FISCAL 2016 DIRECTOR COMPENSATION

The compensation paid by the Company to non-employee directors, for the fiscal year ended December 31, 2016 is summarized as follows:

Name(1) (a)	Fees earned or paid in cash (b)	Stock awards (2)(3) (c)	Option awards (2)(4) (d)	Non-equity incentive plan compensation (e)	Change in pension value and nonqualified deferred compensation earnings (f)	All other compensation (g)	Total (h)
Eric Brown	$63,000	$275,405	$ —	$ —	$ —	$ —	$338,405
Gill Cogan	57,500	304,321(5)	—	—	—	—	361,816
Thomas Georgens	53,000	275,405	—	—	—	—	328,405
Richard Kashnow	63,000	275,405	—	—	—	—	338,405
Dan Maydan	52,500	275,405	—	—	—	—	327,905

(1) Guy Gecht, the Company's Chief Executive Officer and President is not included in this table as he is an employee of the Company, and thus he received no compensation for his services as director. The compensation received by Mr. Gecht is shown in the Summary Compensation Table for 2016 on page 51 of this Proxy Statement.

(2) The amounts reported in the Stock Awards and Option Awards column represents the aggregate grant date fair value determined in accordance with Financial Accounting Standards Board Accounting Standard Codification ("ASC") 718, Stock Compensation, of equity-based awards granted to non-employee directors during 2016. See Note 12 of the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2016 regarding assumptions underlying the valuation of equity awards.

(3) At December 31, 2016, the aggregate number of restricted stock units ("RSUs") outstanding for each non-employee director was as follows:

Name	Total (#)
Eric Brown	6,500
Gill Cogan	7,141
Thomas Georgens	6,500
Richard Kashnow	6,500
Dan Maydan	6,500

(4) At December 31, 2016, the aggregate number of option awards outstanding for each non-employee director was as follows:

Name	Vested (#)	Unvested (#)	Total (#)
Eric Brown	—	—	—
Gill Cogan	75,000	—	75,000
Thomas Georgens	75,000	—	75,000
Richard Kashnow	75,000	—	75,000
Dan Maydan	—	—	—

(5) Includes the annual Board of Directors Chair retainer paid in the form of an RSU grant issued to Mr. Cogan.

Director Compensation Program

The compensation of non-employee directors is determined by the Board of Directors. Employee members of the Board of Directors currently receive compensation in connection with their employment with the Company and do not receive any additional compensation for service on the Board of Directors.

Cash Compensation. Non-employee directors receive cash compensation in the form of annual retainers and attendance fees per meeting of the Board of Directors and the Board Committees. In addition, the chairpersons of the Board of Directors and the Board Committees receive a chairperson premium, as set forth below:

	Annual Retainer		Meeting Fees	
	Chairperson	Member	In Person	Telephone
Board of Directors	$ *	$25,000	$2,000	$1,000
Audit Committee	10,000	10,000	1,000	500
Compensation Committee	5,000	5,000	1,000	500
Nominating and Governance Committee	5,000	5,000	1,000	500

* The Board of Directors chair retainer is paid annually in the form of an RSU grant on the first trading day of the year calculated as $30,000 divided by the closing stock price on the trading day preceding the annual grant date. This RSU grant will vest in one installment on the first anniversary of the grant date, subject to the director's continued service through the vesting date.

The Company reimburses each non-employee director for out-of-pocket expenses incurred in connection with attendance at meetings of the Board of Directors and of the Board Committees, subject to the director's continued service through the vesting date.

Equity Compensation. Equity awards may be granted to the non-employee directors under the Company's stock incentive plans from time to time. Each non-employee director received an equity award grant of 6,500 RSUs on November 8, 2016. These RSUs vest in one installment on the first anniversary of the grant date.

CERTAIN RELATIONSHIPS, RELATED PARTY TRANSACTIONS, DIRECTOR INDEPENDENCE, LEADERSHIP STRUCTURE AND RISK OVERSIGHT

Indemnification of Officers and Directors

As permitted under Delaware law, and pursuant to the Bylaws, the Company's amended and restated certificate of incorporation (the "Certificate of Incorporation") and the indemnification agreements that the Company has entered into with its current and former executive officers, directors, and general counsel, the Company is required, subject to certain limited qualifications, to indemnify its executive officers, directors and general counsel for certain events or occurrences while the executive officer, director or general counsel is or was serving in such capacity at the Company's request. The indemnification period covers all pertinent events and occurrences during the executive officer's, director's, or general counsel's lifetime. The maximum potential amount of future payments the Company may be obligated to make under these indemnification agreements is unlimited; however, the Company has director and officer insurance coverage that limits its exposure and may enable the Company to recover a portion of any future amounts paid.

Related Party Transactions

The Audit Committee is responsible for reviewing and approving in advance any proposed related party transactions as defined under Item 404 of Regulation S-K during 2016. The obligation of the Audit Committee to review and approve in advance any proposed related party transaction is set forth in writing in the Charter of the Audit Committee. Further, the Company's Code of Business Conduct and Ethics provides that the nature of all related party transactions must be fully disclosed to the Chief Financial Officer, and, if determined to be material by the Chief Financial Officer, the Audit Committee must review and approve in writing in advance such related party transactions.

The Company has previously entered into employment agreements with its named executive officers. These agreements are described below under “Employment Agreements.”

There were no other related party transactions as defined under Item 404 of Regulation S-K during 2016.

Director Independence

The Board of Directors has determined that each of the non-employee directors is independent and that each director who serves on each of its Board Committees is independent, as the term is defined by the applicable rules of the SEC and the NASDAQ Rules.

Leadership Structure

Effective June 2007, the Board of Directors separated the roles of Chief Executive Officer and Chairman of the Board. The Board of Directors believes that the designation of an independent Chairman of the Board facilitates processes and controls that support a strong and independently functioning Board of Directors and further strengthens the effectiveness of the Board of Directors’ decision-making and appropriate monitoring of both compliance and performance. The Chief Executive Officer is responsible for setting the strategic direction for the Company and the day to day leadership and performance of the Company, while the Chairman of the Board presides at all meetings of the stockholders and the Board of Directors at which he or she is present; establishes the agenda for each Board of Directors meeting; sets a schedule of an annual agenda, to the extent foreseeable; calls and prepares the agenda for and presides over separate sessions of the independent directors; acts as a liaison between the independent directors and the Company’s management and performs such other powers and duties as may from time to time be assigned to him by the Board of Directors or as may be prescribed by the Company’s bylaws. The independent Chairman of the Board is designated by the Board of Directors. Mr. Cogan has served as our Chairman of the Board since June 2007. Because Mr. Cogan meets the criteria for independence established by NASDAQ, he also presides over separate meetings for the independent directors. The Board of Directors regularly observes such independent directors separate meeting time. The Board of Directors will review from time to time the appropriateness of its leadership structure and implement any changes at it may deem necessary.

Risk Oversight

On behalf of the Board of Directors, the Audit Committee plays a key role in the oversight of the Company’s risk management function performed by independent Business Risk Services (“BRS”), under the leadership of a BRS director (the “BRS Director”). BRS is an independent assessment function, responsible for advising management and the Board of Directors, through its Audit Committee, on the Company’s system of internal controls and management of business risks. BRS assists management and the Audit Committee in fulfilling their control responsibilities by providing regular reports, based on BRS’ reviews, that address: (i) compliance with laws, regulations, and internal policies and procedures; (ii) reliability of financial reporting; and (iii) efficiency and effectiveness of operations. BRS fulfills its objectives by providing analyses, assessments, recommendations, advice, and information to the management or the Audit Committee, as the case may be.

Each year, BRS develops an annual project plan based on assessed business risks and aligned with the Company’s control objectives. BRS fulfills its responsibilities according to such annual project plan approved by the Audit Committee and reports on the results in the implementation of the plan at the meetings of the Audit Committee. Certain risks or policies are also discussed by the Board of Directors. While compensated by the Company, the BRS Director reports directly to the Chairman of the Company’s Audit Committee.

Stock Ownership

In February 2011, the Board of Directors adopted a stock ownership policy for the Company's directors. The policy was adopted to further align the interests of our stockholders and directors. According to the policy, included in the Board of Directors' Guidelines, directors are required to hold at least 10,000 shares of the Company's common stock within three years of first becoming a director, and continue holding such required minimum as long as they continue serving as directors. In determining whether the stock ownership requirements are met, the Board of Directors shall take into account a director's beneficial ownership, including shares of common stock held by the director, shares of common stock held in trust for the benefit of the director or his or her immediate family members, vested or unvested restricted stock and vested or unvested RSUs. Vested and unvested stock options are not taken into account in determining a director's beneficial ownership. The Nominating and Governance Committee may extend in its discretion the deadline for attainment of such stock ownership level. As of April 17, 2017, all of our directors have met the stock ownership requirement.

Policy on Hedging and Pledging

The Company recognizes that hedging against losses in Company stock is not appropriate or acceptable trading activity for individuals employed by or serving the Company. The Company has incorporated prohibitions on various hedging activities within its insider trading policy, which policy applies to directors, officers and employees. The policy prohibits all short sales of Company stock and any trading in derivatives (such as put and call options) that relate to Company securities. The policy also prohibits pledging any Company stock or equity awards as collateral for any margin account, or other form of credit arrangement, subject to a limited exception where a person wishes to pledge Company securities as collateral for a loan (not including margin debt) and clearly demonstrates in the sole discretion of the Company's General Counsel that such person has the financial capacity to repay the loan without resort to the pledged securities.

COMMUNICATION WITH THE BOARD OF DIRECTORS

Pursuant to the process established by the Board of Directors, stockholders who wish to communicate with any member (or all members) of the Board of Directors should send such communications via regular mail addressed to the Company's Secretary, at Electronics For Imaging, Inc., 6750 Dumbarton Circle, Fremont, California 94555. The Secretary will review each such communication and forward it to the appropriate member or members of the Board of Directors as he deems appropriate.

The Company encourages its directors to attend the Annual Meeting. All directors attended the Company's last annual meeting.

PROPOSAL TWO

NON-BINDING ADVISORY VOTE TO APPROVE EXECUTIVE COMPENSATION

The Company is providing its stockholders with the opportunity to cast an advisory vote on the compensation of our named executive officers as disclosed pursuant to the SEC's executive compensation disclosure rules and as set forth in this proxy statement (including the compensation tables and narratives accompanying those tables as well as in the Compensation Discussion and Analysis).

The Company's goal for its executive compensation program is to attract, motivate, and retain a talented and dynamic team of executives. The Company seeks to accomplish this goal in a way that rewards performance and is aligned with its stockholders' long-term interests. The Company believes that its executive compensation program, which emphasizes long-term equity awards, satisfies this goal and is strongly aligned with the long-term interests of its stockholders.

The Compensation Discussion and Analysis, beginning on page 33 of this Proxy Statement, describes the Company's executive compensation program and the decisions made by the Compensation Committee in 2016 in more detail. Highlights of the program include:

- ***Our executive compensation program is designed to pay for performance—***For 2016, the vast majority of the target total direct compensation for our named executive officers was in the form of incentive compensation with approximately 87% of the target total direct compensation for Mr. Gecht and approximately 77% for Mr. Olin being in the form of incentive compensation tied to the achievement of specific financial performance goals and/or our stock price. For these purposes, "target total direct compensation" consists of the executive's base salary, target annual incentive award, and long-term incentive awards based on the grant date fair value of the award as determined in accordance with ASC 718.
- ***Our annual incentive program is based entirely on objective, financial criteria and paid entirely in stock—***Our annual incentive program rewards our named executive officers for achievement of pre-established financial goals that correlate to the long-term goals and strategy of the Company. Awards under the program are granted as performance-based restricted stock unit ("RSU") awards that help further align named executive officers' interests with those of our stockholders. Each named executive officer was provided with an opportunity to receive a "target" award and an "accelerator" annual incentive award in the event that financial performance exceeded the targets. These awards are subject to a cap on the maximum payout. We believe the performance goals established by the Compensation Committee are rigorous and consistent with our pay-for-performance philosophy. The annual incentive program awards for 2016 paid out at 86% of target and none of the accelerator awards vested.
- ***Two-thirds of the 2016 long-term incentive awards were performance based—***Two-thirds of the RSUs granted to our named executive officers in August 2016 under our long-term incentive program were subject to performance-based vesting conditions ("performance-based RSUs") and one-third of the RSUs were subject to time-based vesting conditions ("time-based RSUs. The performance-based RSUs consisted of an award that generally vests based on our revenue growth over a three-year period (subject to a modifier based on our revenue growth over that period relative to a group of NASDAQ listed companies with market capitalizations similar to ours) and a second award that generally vests based on our non-GAAP earnings per share ("EPS") growth over a three-year period (subject to a modifier based on our cash from operations growth over that period). These awards are intended to both provide a retention incentive (as the awards are also subject to continued employment requirements) and enhance executives' focus on specific financial goals considered important to the Company's long-term growth. We modified our approach in 2016 for measuring company performance under our long term incentive awards to reflect feedback from stockholders that they would like to see revenue growth measured relative to the growth generated by other comparable companies and to see that our cash from operations is growing at a comparable rate to our non-GAAP EPS growth.
- ***We maintain executive stock ownership and holding period guidelines—***To further align the interests of our executives and our stockholders, in February 2017, our Board of Directors adopted revised stock ownership guidelines applicable to all executives of the Company. The newly adopted guidelines provide that the Company's chief executive officer should own Company shares with a value of at least five times his base salary and the Company's other executives should own Company shares with a value of at least two times their base salaries. In addition, our executive officers are required to hold any vested shares they acquire pursuant to their equity awards granted on or after January 1, 2016 (after satisfying applicable tax withholding) for at least three years (or, if earlier, termination of the executive's employment with us). As of April 24, 2017, each of our executive officers had satisfied the applicable stock ownership requirements, which we believe helps to significantly align their interests with those of our stockholders.

The Company believes the compensation program for the named executive officers is instrumental in helping the Company achieve its financial performance. In 2016, the Company achieved record revenue, growing to approximately $992 million, which represented an increase of approximately $109 million or 12% growth over the prior year.

In accordance with the requirements of Section 14A of the Exchange Act (which was added by the Dodd-Frank Wall Street Reform and Consumer Protection Act) and the related rules of the SEC, our Board of Directors will request your advisory vote to approve the following resolution at the Annual Meeting:

> **RESOLVED**, that the compensation paid to the Company's named executive officers as disclosed in this Proxy Statement pursuant to the SEC's executive compensation disclosure rules (which disclosure includes the Compensation Discussion and Analysis, the compensation tables, and the narrative disclosures that accompany the compensation tables) is hereby approved.

Vote Required

The approval of the executive compensation requires the affirmative vote of the holders of a majority of shares of common stock present in person or represented by proxy and entitled to vote thereon, at the Annual Meeting. As an advisory vote, this proposal is not binding on the Company. However, the Compensation Committee, which is responsible for designing and administering the Company's executive compensation program, values the opinions expressed by stockholders in their vote on this proposal and will continue to consider the outcome of the vote when making future compensation decisions for named executive officers.

Our current policy is to provide stockholders with an opportunity to approve the compensation of the Company's named executive officers each year at the annual meeting of stockholders (the "say-on-pay" vote). It is expected that the next say-on-pay vote will occur at the 2018 annual meeting. However, as noted in Proposal Three below, the Company is asking stockholders to provide an advisory vote on the frequency of future say-on-pay votes.

Recommendation of the Board of Directors

The Company's Board of Directors recommends a vote "FOR" approval of the executive compensation.

PROPOSAL THREE

NON-BINDING ADVISORY VOTE ON THE FREQUENCY OF FUTURE ADVISORY VOTES ON EXECUTIVE COMPENSATION

As described in Proposal Two above, our stockholders are being provided the opportunity to cast an advisory vote on the compensation of our named executive officers (referred to as a "say-on-pay" vote).

In 2011, our stockholders had the opportunity to cast an advisory vote on how often we should include a say-on-pay vote in our proxy materials for our annual meetings of stockholders or special stockholder meetings for which we must include executive compensation information in the proxy statement for that meeting (referred to as a "say-on-frequency" vote). At our 2011 annual meeting, our stockholders voted to hold a say-on-pay vote every year, and the Board of Directors determined that the say-on-pay vote would be held annually.

Under SEC rules, we are required to hold a new say-on-frequency vote at least every six years. Accordingly, this Proposal Three affords our stockholders the opportunity to cast an advisory vote on how often we should include a say-on-pay vote in our proxy materials for future annual meetings of stockholders (or special stockholder meetings for which we must include executive compensation information in the proxy statement for that meeting). Under this Proposal Three, our stockholders may vote to have future advisory votes on executive compensation every year, every two years, every three years, or abstain from voting.

We believe that advisory votes on executive compensation should be conducted every year so that our stockholders may annually express their views on our executive compensation program.

Vote Required

Under our By-laws, the affirmative vote of a majority of the shares of our common stock represented in person or by proxy at the Annual Meeting and entitled to vote on the proposal is required to approve, on a non-binding, advisory basis, a frequency option for future advisory votes on executive compensation. However, if no option receives the affirmative vote of at least a majority of the shares present in person or represented by proxy and entitled to vote on the proposal at the Annual Meeting, then the Board of Directors will consider the option receiving the highest number of votes as the preferred option of the stockholders.

This proposal on the frequency of future advisory votes on executive compensation is advisory only and will not be binding on the company or our Board of Directors. Although the vote on this proposal is non-binding, our Board of Directors and the Compensation Committee will carefully review the voting results. Notwithstanding the Board's recommendation and the outcome of the stockholder vote, our Board of Directors may in the future decide to conduct advisory votes on executive compensation on a more or less frequent basis and may vary its practice based on factors such as discussions with stockholders and the adoption of material changes to our executive compensation program.

Recommendation of the Board of Directors

The Company's Board of Directors recommends a vote for "1 YEAR" for the frequency of future say-on-pay votes.

PROPOSAL FOUR

APPROVAL OF THE ELECTRONICS FOR IMAGING, INC. 2017 EQUITY INCENTIVE PLAN

General

At the Annual Meeting, stockholders will be asked to approve the Electronics for Imaging, Inc. 2017 Equity Incentive Plan (the "2017 Plan"), which was adopted, subject to stockholder approval, by the Board of Directors on April 11, 2017.

The Company believes that incentives and stock-based awards focus employees on the objective of creating stockholder value and promoting the success of the Company, and that incentive compensation plans like the proposed 2017 Plan are an important attraction, retention and motivation tool for participants in the plan.

The Company currently maintains the Electronics for Imaging, Inc. 2009 Equity Incentive Award Plan (the "2009 Plan"). The Board of Directors believes that the number of shares currently available under the 2009 Plan does not give the Company sufficient authority and flexibility to adequately provide for future incentives. If stockholders approve the 2017 Plan, no new awards will be granted under the 2009 Plan after the Annual Meeting. In that case, the number of shares of the Company's common stock that remain available for award grants under the 2009 Plan immediately prior to the Annual Meeting (excluding the "Net-Settled Shares" under the 2009 Plan discussed below) will become available for award grants under the 2017 Plan. An additional 1,200,000 shares of the Company's common stock will also be made available for award grants under the 2017 Plan. In addition, if stockholders approve the 2017 Plan, any shares of common stock subject to outstanding awards under the 2009 Plan that expire, are cancelled, or otherwise terminate after the Annual Meeting will also be available for award grant purposes under the 2017 Plan.

If stockholders do not approve the 2017 Plan, the Company will continue to have the authority to grant awards under the 2009 Plan. If stockholders approve the 2017 Plan, the termination of our grant authority under the 2009 Plan will not affect awards then outstanding under that plan.

Under the terms of the 2009 Plan, shares tendered or withheld to satisfy the grant or exercise price of an award granted under the 2009 Plan, as well as shares tendered or withheld to satisfy tax withholding obligations in connection with an award granted under the 2009 Plan (referred to in this Proposal 4 as the "Net-Settled Shares"), are available for subsequent grants under the 2009 Plan. However, the Company has historically not considered these shares to be available for award grant purposes under the 2009 Plan and has not made any of these Net-Settled Shares subject to any such subsequent grants under the 2009 Plan. In approving the 2017 Plan, the Board of Directors determined that, subject to stockholder approval of the 2017 Plan, the Net-Settled Shares will no longer be treated as reserved for grant purposes under the 2009 Plan and will not be available for new award grant purposes under the 2009 Plan or the 2017 Plan.

Shares Available for Grant and Awards Outstanding under Company Plans

The following table sets forth information regarding equity awards under the 2009 Plan, the number of shares of our common stock issued and outstanding, and the number of shares available for future issuance as of December 31, 2016 and March 27, 2017 as follows:

	December 31, 2016	March 27, 2017
Number of shares available for future issuance	1,660,761	1,629,640
Stock options outstanding	316,000	252,000
Weighted average remaining contractual term (years) of stock options outstanding	1.46	1.41
Weighted average exercise price of stock options outstanding	$ 13.86	$ 14.26
RSUs, including performance-based and market-based RSUs, outstanding	2,083,075	1,822,727
Common shares outstanding	46,580,838	46,596,513

The number of shares available for future issuance shown in this table does not include the Net-Settled Shares available under the 2009 Plan (as described above).

For more information on the Company's outstanding awards and past grant practices under the 2009 Plan (referred to below as the Company's "overhang" and "burn rate," respectively), please see "Specific Benefits under the 2017 Equity Incentive Plan" below. The 2009 Plan is the Company's only equity compensation plan (other than the proposed 2017 Plan and the Company's Amended and Restated 2000 Employee Stock Purchase Plan (the "ESPP")) and all of the Company's outstanding awards are under the 2009 Plan and the ESPP.

Summary Description of the 2017 Equity Incentive Plan

The principal terms of the 2017 Plan are summarized below. The following summary is qualified in its entirety by the full text of the 2017 Plan, which appears as Exhibit A to this Proxy Statement.

Purpose. The purpose of the 2017 Plan is to promote the success of the Company by providing an additional means for us to attract, motivate, retain and reward selected employees and other eligible persons through the grant of awards. Equity-based awards are also intended to further align the interests of award recipients and our stockholders.

Administration. Our Board of Directors or one or more committees appointed by our Board of Directors will administer the 2017 Plan. Our Board of Directors has delegated general administrative authority for the 2017

Plan to the Compensation Committee. The Board of Directors or a committee thereof (within its delegated authority) may delegate different levels of authority to different committees or persons with administrative and grant authority under the 2017 Plan. (The appropriate acting body, be it the Board of Directors or a committee or other person within its delegated authority is referred to in this proposal as the "Administrator").

The Administrator has broad authority under the 2017 Plan, including, without limitation, the authority:

- to select eligible participants and determine the type(s) of award(s) that they are to receive;
- to grant awards and determine the terms and conditions of awards, including the price (if any) to be paid for the shares or the award and, in the case of share-based awards, the number of shares to be offered or awarded;
- to determine any applicable vesting and exercise conditions for awards (including any applicable performance and/or time-based vesting or exercisability conditions) and the extent to which such conditions have been satisfied, or determine that no delayed vesting or exercise is required, and to accelerate or extend the vesting or exercisability or extend the term of any or all outstanding awards;
- to cancel, modify, or waive the Company's rights with respect to, or modify, discontinue, suspend, or terminate any or all outstanding awards, subject to any required consents;
- subject to the other provisions of the 2017 Plan, to make certain adjustments to an outstanding award and to authorize the conversion, succession or substitution of an award;
- to determine the method of payment of any purchase price for an award or shares of the Company's common stock delivered under the 2017 Plan, as well as any tax-related items with respect to an award, which may be in the form of cash, check, or electronic funds transfer, by the delivery of already-owned shares of the Company's common stock or by a reduction of the number of shares deliverable pursuant to the award, by services rendered by the recipient of the award, by notice and third party payment or cashless exercise on such terms as the Administrator may authorize, or any other form permitted by law;
- to modify the terms and conditions of any award, establish sub-plans and agreements and determine different terms and conditions that the Administrator deems necessary or advisable to comply with laws in the countries where the Company or one of its subsidiaries operates or where one or more eligible participants reside or provide services;
- to approve the form of any award agreements used under the 2017 Plan; and
- to construe and interpret the 2017 Plan, make rules for the administration of the 2017 Plan, and make all other determinations for the administration of the 2017 Plan.

No Repricing. In no case (except due to an adjustment to reflect a stock split or other event referred to under "Adjustments" below, or any repricing that may be approved by stockholders) will the Administrator (1) amend an outstanding stock option or stock appreciation right to reduce the exercise price or base price of the award, (2) cancel, exchange, or surrender an outstanding stock option or stock appreciation right in exchange for cash or other awards for the purpose of repricing the award, or (3) cancel, exchange, or surrender an outstanding stock option or stock appreciation right in exchange for an option or stock appreciation right with an exercise or base price that is less than the exercise or base price of the original award.

Minimum Vesting Requirement. Except as described below, all awards granted under the 2017 Plan will be subject to a minimum vesting requirement of one year. Awards may, however, be granted under the 2017 Plan with minimum vesting requirements of less than one year, or no vesting requirements, provided that the total number of the Company's common shares issued under such awards will not exceed 5% of the Share Limit described below. This minimum vesting requirement under the 2017 Plan does not limit or restrict the Administrator's discretion to accelerate or provide for the acceleration of vesting of any award in any circumstances it determines to be appropriate.

Eligibility. Persons eligible to receive awards under the 2017 Plan include officers or employees of the Company or any of its subsidiaries, directors of the Company, and certain consultants and advisors to the Company or any of its subsidiaries. Currently, approximately 3,600 officers and employees of the Company and its subsidiaries (including all of the Company's named executive officers), and each of the five members of the Board who are not employed by the Company or any of its subsidiaries ("Non-Employee Directors"), are considered eligible under the 2017 Plan.

Aggregate Share Limit. The maximum number of shares of the Company's common stock that may be issued or transferred pursuant to awards under the 2017 Plan equals the sum of the following (such total number of shares, the "Share Limit"):

- 1,200,000 shares, plus
- the number of shares available for additional award grant purposes under the 2009 Plan as of the date of the Annual Meeting and determined immediately prior to the termination of the authority to grant new awards under that plan as of the date of the Annual Meeting (excluding the Net-Settled Shares under the 2009 Plan discussed above), plus
- the number of any shares subject to stock options granted under the 2009 Plan and outstanding as of the date of the Annual Meeting which expire, or for any reason are cancelled or terminated, after the date of the Annual Meeting without being exercised, plus
- the number of any shares subject to RSU awards granted under the 2009 Plan that are outstanding and unvested as of the date of the Annual Meeting which are forfeited, terminated, cancelled, or otherwise reacquired after the date of the Annual Meeting without having become vested.

As of March 27, 2017, 1,629,640 shares were available for additional award grant purposes under the 2009 Plan (without giving effect to the Net-Settled Shares discussed above), 252,000 shares were subject to stock options then outstanding under the 2009 Plan, and1,822,727 shares were subject to RSU awards then outstanding under the 2009 Plan (assuming performance-based RSUs vest based on the maximum level of performance). As noted above, no additional awards will be granted under the 2009 Plan if stockholders approve the 2017 Plan.

Additional Share Limits. The following other limits are also contained in the 2017 Plan. These limits are in addition to, and not in lieu of, the Share Limit for the plan described above.

- The maximum number of shares that may be delivered pursuant to options qualified as incentive stock options granted under the plan is 1,200,000 shares.
- The maximum number of shares subject to those options and stock appreciation rights that are granted under the plan during any one calendar year to any one individual is 1,000,000 shares (provided that the limit is 2,000,000 shares during the individual's first calendar year of service with the Company and its subsidiaries).
- The maximum number of shares subject to awards granted to a Non-Employee Director under the 2017 Plan during any one calendar year is 9,750 shares, except that this limit is 10,750 shares as to a Non-Employee Director who is serving as the independent Chair of the Board or as a lead independent director at the time the applicable grant is made. This limit does not apply to, and will be determined without taking into account, any award granted to an individual who, on the grant date of the award, is an officer or employee of the Company or one of its subsidiaries. This limit applies on an individual basis and not on an aggregate basis to all Non-Employee Directors as a group.
- The maximum number of shares subject to "Qualified Performance-Based Awards" under Section 5.2 of the 2017 Plan (as described in more detail below) granted during any one calendar year to any one individual where the value of the award is expressed as a number or range of shares (including Qualified-Performance Based Awards in the form of restricted stock, performance stock or stock unit awards) or where the award is payable in cash upon or following vesting of the award in an amount

determined with reference to the fair market value of a share at such time is 1,000,000 shares (provided that the limit is 2,000,000 shares during the individual's first calendar year of service with the Company and its subsidiaries).

- The maximum amount that may be paid to any one participant in respect of all "Qualified Performance-Based Awards" under Section 5.2 of the 2017 Plan granted to that participant in any one calendar year where the potential payment is a stated cash amount or range of stated cash amounts is $5,000,000 (regardless of whether the payment is ultimately made in cash or in a number of shares determined based on the fair market value of a share upon or following the vesting of the award).

Share-Limit Counting Rules. The Share Limit of the 2017 Plan is subject to the following rules:

- Except as expressly provided below, shares that are subject to or underlie awards which expire or for any reason are cancelled or terminated, are forfeited, fail to vest, or for any other reason are not paid or delivered under the 2017 Plan will not be counted against the Share Limit and will again be available for subsequent awards under the 2017 Plan.
- To the extent that shares are delivered pursuant to the exercise of a stock option or stock appreciation right granted under the 2017 Plan, the number of shares as to which the portion of the stock option or stock appreciation right is exercised shall be counted against the Share Limit. (For purposes of clarity, if a stock option or stock appreciation right relates to 100,000 shares and is exercised at a time when the net number of shares due to the participant is 15,000 shares (taking into account any shares withheld to satisfy any applicable exercise or base price of the award and any shares withheld to satisfy any tax withholding obligations arising in connection with such exercise), 100,000 shares shall be charged against the Share Limit with respect to such award.)
- Shares that are exchanged by a participant or withheld by the Company as full or partial payment in connection with any award granted under the 2017 Plan or the 2009 Plan, as well as any shares exchanged by a participant or withheld by the Company to satisfy the tax withholding obligations related to any award granted under the 2017 Plan or the 2009 Plan, will not be available for subsequent awards under the 2017 Plan.
- To the extent that an award is settled in cash or a form other than shares, the shares that would have been delivered had there been no such cash or other settlement will not be counted against the Share Limit and will again be available for subsequent awards under the 2017 Plan.
- In the event that shares are delivered in respect of a dividend equivalent right, the actual number of shares delivered with respect to the award shall be counted against the Share Limit. (For purposes of clarity, if 1,000 dividend equivalent rights are granted and outstanding when the Company pays a dividend, and 50 shares are delivered in payment of those rights with respect to that dividend, 50 shares shall be counted against the Share Limit.) Except as otherwise provided by the Administrator, shares delivered in respect of dividend equivalent rights shall not count against any individual award limit under the 2017 Plan other than the aggregate Share Limit.

In addition, the 2017 Plan generally provides that shares issued in connection with awards that are granted by or become obligations of the Company through the assumption of awards (or in substitution for awards) in connection with an acquisition of another company will not count against the shares available for issuance under the 2017 Plan. The Company may not increase the applicable share limits of the 2017 Plan by repurchasing shares of common stock on the market (by using cash received through the exercise of stock options or otherwise).

Types of Awards. The 2017 Plan authorizes stock options, stock appreciation rights, and other forms of awards granted or denominated in the Company's common stock or units of the Company's common stock, as well as cash bonus awards. The 2017 Plan retains flexibility to offer competitive incentives and to tailor benefits to specific needs and circumstances. Any award may be structured to be paid or settled in cash.

A stock option is the right to purchase shares of the Company's common stock at a future date at a specified price per share (the "exercise price"). The per share exercise price of an option generally may not be less than the fair market value of a share of the Company's common stock on the date of grant. The maximum term of an option is ten years from the date of grant. An option may either be an incentive stock option or a nonqualified stock option. Incentive stock option benefits are taxed differently from nonqualified stock options, as described under "Federal Income Tax Consequences of Awards Under the 2017 Plan" below. Incentive stock options are also subject to more restrictive terms and are limited in amount by the U.S. Internal Revenue Code and the 2017 Plan. Incentive stock options may only be granted to employees of the Company or a subsidiary.

A stock appreciation right is the right to receive payment of an amount equal to the excess of the fair market value of share of the Company's common stock on the date of exercise of the stock appreciation right over the base price of the stock appreciation right. The base price will be established by the Administrator at the time of grant of the stock appreciation right and generally may not be less than the fair market value of a share of the Company's common stock on the date of grant. Stock appreciation rights may be granted in connection with other awards or independently. The maximum term of a stock appreciation right is ten years from the date of grant.

The other types of awards that may be granted under the 2017 Plan include, without limitation, stock bonuses, restricted stock, performance stock, stock units or phantom stock (which are contractual rights to receive shares of stock, or cash based on the fair market value of a share of stock), dividend equivalents which represent the right to receive a payment based on the dividends paid on a share of stock over a stated period of time, or similar rights to purchase or acquire shares, and cash awards.

Subject to the minimum vesting requirement described above, any awards under the 2017 Plan (including awards of stock options and stock appreciation rights) may be fully-vested at grant or may be subject to time- and/or performance-based vesting requirements.

Qualified Performance-Based Awards. Under Section 162(m) of the U.S. Internal Revenue Code ("Section 162(m)") a public corporation generally cannot take a tax deduction in any tax year for compensation it pays to its Chief Executive Officer and certain other executive officers in excess of $1 million. Compensation that qualifies as "performance-based" under Section 162(m), however, is excluded from the $1 million limit if, among other requirements, the compensation is payable only upon attainment of pre-established, objective performance goals under a plan approved by the corporation's shareholders.

The Administrator may grant awards under the 2017 Plan that are intended to be performance-based awards within the meaning of Section 162(m). Stock options and stock appreciation rights may qualify as performance-based awards within the meaning of Section 162(m). In addition, other types of awards authorized under the 2017 Plan (such as restricted stock, performance stock, stock units, and cash bonus opportunities) may be granted with performance-based vesting requirements and intended to qualify as performance-based awards within the meaning of Section 162(m) ("**Qualified Performance-Based Awards**"). While the Administrator may grant awards under the 2017 Plan that qualify (or are intended to qualify) as performance-based awards within the meaning of Section 162(m), nothing requires that any award qualify as "performance-based" within the meaning of Section 162(m) or otherwise be deductible for tax purposes.

The vesting or payment of Qualified Performance-Based Awards will depend on the performance of the Company on a consolidated, subsidiary, segment, division, or business unit basis. The Administrator will establish the criterion or criteria and target(s) on which performance will be measured. To qualify an award as performance-based under Section 162(m), the Administrator must consist solely of two or more outside directors (as this requirement is applied under Section 162(m)), the Administrator must establish criteria and targets in advance of applicable deadlines under Section 162(m) and while the attainment of the performance targets remains substantially uncertain, and the Administrator must certify that any applicable performance goals and other material terms of the grant were satisfied. The performance criteria that the Administrator may use for this purpose will include one or more of the following: net earnings (either before or after interest, taxes, depreciation and amortization), economic value-added, sales or revenue, net income (either before or after taxes), operating earnings, operating income, cash flow (including, but not limited to, operating cash flow and free cash flow), cash flow return on capital, return on net assets, return on stockholders' equity, return on assets, return on capital, stockholder returns, return on sales, gross or net profit margin, productivity, expense, margins, operating efficiency, customer satisfaction, working capital, earnings per share, price per share, market share, or any combination thereof. These performance criteria may be measured on an absolute or relative basis (including relative to the performance of other companies) and may also be expressed as a growth or decline measure relative to an amount or performance for a prior date or period. The performance measurement period with respect to an award may range from three months to ten years. The terms of the Qualified Performance-Based Awards may specify the manner, if any, in which performance targets shall be adjusted to exclude the effects of certain unusual or nonrecurring items identified in the 2017 Plan documents or otherwise specified by the Administrator at the time of establishing the goals.

Qualified Performance-Based Awards may be paid in stock or in cash (in either case, subject to the limits described under the heading "Additional Share Limits" above). The Administrator has discretion to determine the performance target or targets and any other restrictions or other limitations of Qualified Performance-Based Awards and may reserve discretion to reduce payments below maximum award limits.

Dividend Equivalents; Deferrals. The Administrator may provide for the deferred payment of awards, and may determine the other terms applicable to deferrals. The Administrator may provide that awards under the 2017 Plan (other than options or stock appreciation rights), and/or deferrals, earn dividends or dividend equivalents based on the amount of dividends paid on outstanding shares of Common Stock, provided that as to any dividend equivalent rights granted in connection with an award granted under the 2017 Plan that is subject to vesting requirements, no dividend equivalent payment will be made unless the related vesting conditions of the award are satisfied (or, in the case of a restricted stock or similar award where the dividend must be paid as a matter of law, the dividend payment will be subject to forfeiture or repayment, as the case may be, if the applicable vesting conditions are not satisfied).

Assumption and Termination of Awards. If an event occurs in which the Company does not survive (or does not survive as a public company in respect of its common stock), including, without limitation, a dissolution, merger, combination, consolidation, conversion, exchange of securities, or other reorganization, or a sale of all or substantially all of the business, stock or assets of the Company, awards then-outstanding under the 2017 Plan will not automatically become fully vested pursuant to the provisions of the 2017 Plan so long as such awards are assumed, substituted for or otherwise continued. However, if awards then-outstanding under the 2017 Plan are to be terminated in such circumstances (without being assumed or substituted for), such awards would generally become fully vested (with any performance goals applicable to the award being deemed met at the "target" performance level), subject to any exceptions that the Administrator may provide for in an applicable award agreement. The Administrator also has the discretion to establish other change in control provisions with respect to awards granted under the 2017 Plan. For example, the Administrator could provide for the acceleration of vesting or payment of an award in connection with a corporate event or in connection with a termination of the award holder's employment. For the treatment of outstanding equity awards held by the named executive officers in connection with a termination of employment and/or a change in control of the Company, please see the "Potential Payments Upon Termination or Change of Control" below in this Proxy Statement.

Transfer Restrictions. Subject to certain exceptions contained in Section 5.7 of the 2017 Plan, awards under the 2017 Plan generally are not transferable by the recipient other than by will or the laws of descent and distribution and are generally exercisable, during the recipient's lifetime, only by the recipient. Any amounts payable or shares issuable pursuant to an award generally will be paid only to the recipient or the recipient's beneficiary or representative. The Administrator has discretion, however, to establish written conditions and procedures for the transfer of awards to other persons or entities, provided that such transfers comply with applicable federal and state securities laws and are not made for value (other than nominal consideration, settlement of marital property rights, or for interests in an entity in which more than 50% of the voting securities are held by the award recipient or by the recipient's family members).

Adjustments. As is customary in incentive plans of this nature, each share limit and the number and kind of shares available under the 2017 Plan and any outstanding awards, as well as the exercise or purchase prices of awards, and performance targets under certain types of performance-based awards, are subject to adjustment in the event of certain reorganizations, mergers, combinations, recapitalizations, stock splits, stock dividends, or other similar events that change the number or kind of shares outstanding, and extraordinary dividends or distributions of property to the stockholders.

No Limit on Other Authority. Except as expressly provided with respect to the termination of the authority to grant new awards under the 2009 Plan if stockholders approve the 2017 Plan, the 2017 Plan does not limit the authority of the Board of Directors or any committee to grant awards or authorize any other compensation, with or without reference to the Company's common stock, under any other plan or authority.

Termination of or Changes to the 2017 Plan. The Board of Directors may amend or terminate the 2017 Plan at any time and in any manner. Stockholder approval for an amendment will be required only to the extent then required by applicable law or deemed necessary or advisable by the Board of Directors. Unless terminated earlier by the Board of Directors and subject to any extension that may be approved by stockholders, the authority to grant new awards under the 2017 Plan will terminate on April 10, 2027. Outstanding awards, as well as the Administrator's authority with respect thereto, generally will continue following the expiration or termination of the plan. Generally speaking, outstanding awards may be amended by the Administrator (except for a repricing), but the consent of the award holder is required if the amendment (or any plan amendment) materially and adversely affects the holder.

U.S. Federal Income Tax Consequences of Awards under the 2017 Plan

The U.S. federal income tax consequences of the 2017 Plan under current federal law, which is subject to change, are summarized in the following discussion of the general tax principles applicable to the 2017 Plan. This summary is not intended to be exhaustive and, among other considerations, does not describe the deferred compensation provisions of Section 409A of the U.S. Internal Revenue Code to the extent an award is subject to and does not satisfy those rules, nor does it describe state, local, or international tax consequences.

With respect to nonqualified stock options, the company is generally entitled to deduct and the participant recognizes taxable income in an amount equal to the difference between the option exercise price and the fair market value of the shares at the time of exercise. With respect to incentive stock options, the company is generally not entitled to a deduction nor does the participant recognize income at the time of exercise, although the participant may be subject to the U.S. federal alternative minimum tax.

The current federal income tax consequences of other awards authorized under the 2017 Plan generally follow certain basic patterns: nontransferable restricted stock subject to a substantial risk of forfeiture results in income recognition equal to the excess of the fair market value over the price paid (if any) only at the time the restrictions lapse (unless the recipient elects to accelerate recognition as of the date of grant); bonuses, stock appreciation rights, cash and stock-based performance awards, dividend equivalents, stock units, and other types of awards are generally subject to tax at the time of payment; and compensation otherwise effectively deferred is taxed when paid. In each of the foregoing cases, the company will generally have a corresponding deduction at the time the participant recognizes income.

If an award is accelerated under the 2017 Plan in connection with a "change in control" (as this term is used under the U.S. Internal Revenue Code), the company may not be permitted to deduct the portion of the compensation attributable to the acceleration ("parachute payments") if it exceeds certain threshold limits under the U.S. Internal Revenue Code (and certain related excise taxes may be triggered). Furthermore, the aggregate compensation in excess of $1,000,000 attributable to awards that are not “performance-based” within the meaning of Section 162(m) may not be permitted to be deducted by the company in certain circumstances.

Specific Benefits under the 2017 Equity Incentive Plan

The Company has not approved any awards that are conditioned upon stockholder approval of the 2017 Plan. The Company is not currently considering any other specific award grants under the 2017 Plan, other than the annual grants of RSUs to our Non-Employee Directors described in the following paragraph. If the 2017 Plan had been in existence in fiscal 2016, the Company expects that its award grants for fiscal 2016 would not have been substantially different from those actually made in that year under the 2009 Plan. For information regarding stock-based awards granted to the Company’s named executive officers during fiscal 2016, see the material under the heading “Compensation Discussion and Analysis” and the related executive compensation tables below.

As described under “Director Compensation” above, our current compensation policy for Non-Employee Directors provides for each Non-Employee Director to receive an annual award of 6,500 RSUs. Additionally, our current compensation policy provides that the Board chair receives an annual retainer of $30,000 paid in RSUs, with the number of shares to be determined by dividing $30,000 by the closing price of our common stock on the grant date (or the immediately preceding trading day if the grant date is not a trading day) as described under “Director Compensation” above. Assuming, for illustrative purposes only, that the price of the common stock used for the conversion of the dollar amount set forth above into shares is $47.09 (the closing price of our common stock on March 27, 2017), the number of RSUs that would be allocated to the Company’s Board chair each year pursuant to the annual grant formula is approximately 637 shares. Accordingly, the aggregate number of shares that would be subject to the annual grants under the director equity grant program for calendar years 2018 through 2027 (the ten years in the term of the 2017 Plan, assuming the plan is approved) based on that assumed stock price is 331,370 shares (which is the annual award of 6,500 RSUs for each of our five Non-Employee Directors plus the 637 shares for the annual Board chair grant, multiplied by the ten years in the term of the 2017 Plan). This calculation also assumes that there are no new eligible directors, there continue to be five eligible directors seated and there are no changes to the awards granted under the director equity grant program.

The following paragraphs include additional information to help you assess the potential dilutive impact of the Company’s equity awards and the 2017 Plan. The 2009 Plan is the Company’s only equity compensation plan (other than the ESPP). The ESPP generally provides for broad-based participation by employees of the Company (and certain of its subsidiaries) and affords employees who elect to participate an opportunity to purchase shares of the Company’s common stock at a discount. Certain information regarding the number of shares of Company common stock available for issuance under the ESPP is included under the heading “Equity Compensation Plan Information” below. The discussion that follows in this “Specific Benefits” section does not include any shares that have been purchased under, may be purchased in the current purchase period under, or that remain available for issuance or delivery under the ESPP.

“Overhang” refers to the number of shares of the Company’s common stock that are subject to outstanding awards or remain available for new award grants. The following table shows the total number of shares of the Company’s common stock that were subject to outstanding RSU awards granted under the 2009 Plan, that were subject to outstanding stock options granted under the 2009 Plan, and that were then available for new award grants under the 2009 Plan as of December 31, 2016 and as of March 27, 2017. (In this 2017 Plan proposal, the number of shares of the Company’s common stock subject to RSU awards granted during any particular period or outstanding on any particular date is presented based on the actual number of shares of the Company’s common stock covered by those awards, with awards subject to performance-based vesting requirements presented based on the maximum level of performance.)

	December 31, 2016	March 27, 2017
Number of shares available for future issuance	1,660,761	1,629,640
Stock options outstanding	316,000	252,000
Weighted average remaining contractual term (years) of stock options outstanding	1.46	1.41
Weighted average exercise price of stock options outstanding	$ 13.86	$ 14.26
RSUs, including performance-based and market-based RSUs, outstanding	2,083,075	1,822,727
Common shares outstanding	46,580,838	46,596,513

The number of shares available for future issuance shown in this table does not include the Net-Settled Shares available under the 2009 Plan (as discussed in the introduction to this 2016 Plan Proposal).

The weighted-average number of shares of the Company's common stock issued and outstanding in each of the last three fiscal years are included in the table below.

The number of shares subject to annual grants of equity awards is commonly expressed as percentage of total shares outstanding and referred to as the "burn rate." Burn rate is a measure of dilution reflecting how rapidly a company is depleting its shares reserved for equity compensation plans. Burn rate differs from annual dilution because it does not consider cancellations and forfeitures. We have calculated the burn rate under our 2009 Plan for each the years ended December 31, 2016, 2015, and 2014 as follows:

Time Period	Time-based RSUs Granted	Performance/ Market-based RSUs Vested	Performance/ Market-based Options Vested	Multiplier	Full Value Shares Granted / Vested	Weighted Average Common Stock Outstanding	Burn rate
Fiscal 2016	538,845	225,570	3,885	2.50	1,914,923	46,900,158	4.08%
Fiscal 2015	517,036	286,877	—	2.50	2,009,783	47,216,572	4.26%
Fiscal 2014	529,033	402,693	—	2.50	2,329,315	46,865,208	4.97%

Full Value Shares Granted/Vested equals time-based awards RSUs granted during the applicable fiscal year and performance-based and market-based RSUs that vested during that fiscal year multiplied by a multiplier of 2.5 and added to performance-based and market-based stock options that vested during that fiscal year. The multiplier was determined based on the burn rate policies of Institutional Shareholder Services.

The table above does not take into account awards that are cancelled or forfeited during the fiscal year. Our annual dilution for fiscal 2016 was 2.3%, measured as the number of shares subject to equity awards granted in a given year, less cancellations and forfeitures, divided by common shares outstanding at the end of the year.

The Compensation Committee anticipates that the 1,200,000 additional shares requested for the 2017 Plan, together with the shares available for new award grants under the 2009 Plan on the Annual Meeting date (excluding the Net-Settled Shares as discussed above), and assuming usual levels of shares becoming available for new awards as a result of forfeitures of outstanding awards will provide the Company with flexibility to continue to grant equity awards under the 2017 Plan through approximately the end of 2019 (reserving sufficient shares to cover potential payment of performance-based awards at maximum payment levels). However, this is only an estimate, in the Company's judgment, based on current circumstances. The total number of shares that are subject to the Company's award grants in any one year or from year-to-year may change based on a number of variables, including, without limitation, the value of the Company's common stock (since higher stock prices generally require that fewer shares be issued to produce awards of the same grant date fair value), changes in competitors' compensation practices or changes in compensation practices in the market generally, changes in the number of employees, changes in the number of directors and officers, whether and the extent to which vesting conditions applicable to equity-based awards are satisfied, acquisition activity and the need to grant awards to new employees in connection with acquisitions, the need to attract, retain and incentivize key talent, the type of awards the Company grants, and how the Company chooses to balance total compensation between cash and equity-based awards.

The closing market price for a share of the Company's common stock as of March 27, 2017 was $47.09 per share.

EQUITY COMPENSATION PLAN INFORMATION

The Company currently maintains two equity compensation plans: the 2009 Plan and the ESPP. Both plans were approved by the Company's stockholders. Stockholders are also being asked to approve a new equity compensation plan, the 2017 Plan, as described above.

The following table sets forth, for each of the Company's equity compensation plans, the number of shares of common stock subject to outstanding awards, the weighted-average exercise price of outstanding options, and the number of shares remaining authorized and available for future award grants as of December 31, 2016.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column 1)
Equity compensation plans approved by stockholders	2,399,075(1)	$13.86(2)	2,847,091(3)(4)(5)
Equity compensation plans not approved by stockholders	—	—	—
Total	2,399,075	$13.86	2,847,091

(1) Includes 316,000 shares subject to options and 2,083,075 subject to RSUs outstanding under the 2009 Plan.
(2) Calculated without taking into account 2,083,075 RSUs that will become issuable as those units vest, without any cash consideration or other payment required for such shares.
(3) Available shares do not include 1,234,744 Net Settled Shares under the 2009 Plan (although those shares were included in the "Securities Authorized for Issuance Under Equity Compensation Plans" table included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016). We have not included the Net Settled Shares in the table above because, as discussed above, although the 2009 Plan provides that the Net-Settled Shares are available for award grant purposes under the 2009 Plan, the Company has historically not considered these Net-Settled Shares to be available for grant and has not made any of these Net-Settled Shares subject to any grants under the 2009 Plan. In approving the 2017 Plan, the Board of Directors determined that, subject to stockholder approval of the 2017 Plan, the Net-Settled Shares will not be available for new award grant purposes under the 2009 Plan or the 2017 Plan.
(4) Available shares include 1,660,761 shares available under the 2009 Plan and 1,186,30 shares available under the ESPP, before giving effect to 153,123 shares purchased under the ESPP for the purchase period ended January 31, 2017.
(5) The shares available for awards under the 2009 Plan are, subject to certain other limits under the plan, generally available for any type of award authorized under the 2009 Plan, including stock options, stock appreciation rights, restricted stock awards, stock bonuses and other stock-based awards. If stockholders approve the 2017 Plan, no new awards will be granted under the 2009 Plan after the Annual Meeting.

Proxy

Vote Required for Approval of the 2017 Equity Incentive Plan

The Board of Directors believes that the adoption of the 2017 Plan will promote the interests of the Company and its stockholders and will help the Company and its subsidiaries continue to be able to attract, retain and reward persons important to our success.

All members of the Board of Directors and all of the Company's executive officers are eligible for awards under the 2017 Plan and thus have a personal interest in the approval of the 2017 Plan.

Approval of the 2017 Plan requires the affirmative vote of a majority of the common stock present, or represented, and entitled to vote at the Annual Meeting.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE "FOR" APPROVAL OF THE 2017 EQUITY INCENTIVE PLAN AS DESCRIBED ABOVE AND SET FORTH IN EXHIBIT A HERETO.

PROPOSAL FIVE

RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee of the Board of Directors has appointed Deloitte & Touche LLP ("Deloitte") as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2017. Stockholder ratification of the appointment of Deloitte as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2017 is not required by law, by the NASDAQ Rules, or by the Certificate of Incorporation or Bylaws. However, the Board of Directors is submitting the selection of Deloitte to the Company's stockholders for ratification as a matter of good corporate governance and practice. If the stockholders fail to ratify the appointment, the Board of Directors will reconsider whether to retain that firm. Even if the selection is ratified, the Company may appoint a different independent registered public accounting firm during the year if the Audit Committee determines that such a change would be in the best interests of the Company and its stockholders.

During the fiscal years ended December 31, 2016 and 2015, Deloitte provided various audit, audit related, and non-audit services as follows (in thousands):

	2016	2015
Audit fees(a)	$2,488	$1,788
Audit-related fees(b)	419	662
Tax fees(c) including:		
Tax compliance	747	707
Tax consulting	575	745
All other fees(d)	2	2(1)
Total	$4,231	$3,904

(1) Accounting research tools

(a) Audit fees consist of aggregate fees incurred for professional services rendered for the audit of the Company's consolidated financial statements included in annual SEC filings and reports, review of interim consolidated financial statements, and the audit of the effectiveness of our internal controls pursuant to Section 404 of the Sarbanes-Oxley Act.

(b) Audit-related fees consist of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of the Company's consolidated financial statements and are not reported under "Audit Fees." These services primarily include acquisition-related due diligence services and audit procedures related to our acquisitions.

(c) Tax fees include:
  - Tax compliance consisting of fees billed for professional services for tax compliance, the preparation of original and amended tax returns and refund claims, and tax planning.
  - Tax consulting consists of tax advice and tax planning. These services include tax assistance regarding mergers and acquisitions.

(d) All other fees consist of accounting research tools.

The Audit Committee is responsible for pre-approving audit and non-audit services to be provided to the Company by the independent registered public accounting firm (or subsequently approving non-audit services in those circumstances where a subsequent approval is necessary and permissible). In this regard, the Audit Committee has the sole authority to approve the employment of the independent registered public accounting firm, all audit engagement fees and terms and all non-audit engagements, as may be permissible, with the independent registered public accounting firm.

The Audit Committee has considered whether provision of the services described in sections (b), (c), and (d), above is compatible with maintaining the independent registered public accounting firm's independence and has determined that such services have not adversely affected Deloitte's independence. All of the services of each of (b), (c), and (d) were pre-approved by the Audit Committee.

Representatives of Deloitte are expected to be present at the Annual Meeting. The representatives will have an opportunity to make a statement and will be available to respond to appropriate questions.

Vote Required

The ratification of the selection of Deloitte & Touche LLP requires the affirmative vote of the holders of a majority of shares of common stock present in person or represented by proxy and entitled to vote thereon, at the Annual Meeting.

Recommendation of the Board of Directors

The Company's Board of Directors recommends a vote "FOR" the ratification of the appointment of the Company's independent registered public accounting firm for the fiscal year ending December 31, 2017. Proxies received by the Company will be voted "FOR" this proposal unless the stockholder specifies otherwise in the proxy.

SECURITY OWNERSHIP

Except as otherwise indicated below, the following table sets forth certain information regarding beneficial ownership of common stock as of April 24, 2017 by: (1) each of the Company's current directors; (2) each of the named executive officers listed in the Summary Compensation Table for 2016 on page 51 of this Proxy Statement (collectively, the Company's "named executive officers"); (3) each person known to the Company to be the beneficial owner of more than 5% of the outstanding shares of the Company's common stock based upon Schedules 13G, filed with the SEC; and (4) all of the Company's directors and executive officers as a group. As of April 24, 2017, there were 46,467,840 shares of common stock outstanding.

Shares of common stock subject to options or other rights that are currently exercisable or exercisable within 60 days of April 24, 2017 are considered outstanding and beneficially owned by the person holding the options or other rights for the purpose of computing the percentage ownership of that person, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person, except with respect to the percentage ownership of all directors and executive officers as a group. Unless otherwise indicated below, the address of each beneficial owner listed below is c/o Electronics For Imaging, Inc., 6750 Dumbarton Circle, Fremont, California 94555.

Name of beneficial owner(1)	Common stock Number of shares	Percentage owned
BlackRock, Inc.(2) 55 East 52nd Street New York NY 10055	5,392,189	11.60%
Cadian Capital Management, LP(3) 535 Madison Avenue 36th Floor New York NY 10022	2,777,233	5.98
The Vanguard Group, Inc.(4) 100 Vanguard Blvd. Malvern PA 19355	3,989,784	8.59
Ameriprise Financial, Inc.(5) 145 Ameriprise Financial Center Minneapolis MN 55474	2,612,488	5.62
Guy Gecht(6)	449,648	*
Gill Cogan(7)	120,194	*
Dan Maydan(8)	26,810	*
Thomas Georgens(9)	118,500	*
Richard Kashnow(10)	53,500	*
Eric Brown(11)	28,000	*
Marc Olin(12)	80,944	*
All current executive officers and directors as a group (7 persons) (13)	877,596	1.88%

* Less than one percent.

(1) This table is based upon information supplied by officers, directors, and principal stockholders on Schedules 13G and Forms 4 filed with the SEC as of April 24, 2017. Unless otherwise indicated in the footnotes to this table and subject to community property laws where applicable, each of the stockholders named in this table has sole voting and investment power with respect to the shares indicated as beneficially owned. Applicable percentages are based on 46,467,840 shares outstanding on April 24, 2017, adjusted as required by rules promulgated by the SEC.

(2) Beneficial ownership information is based on information contained in Schedule 13G, as amended, filed with the SEC on January 12, 2017, by BlackRock, Inc reporting securities deemed to be beneficially owned as of December 31, 2016. BlackRock, Inc. has sole voting power as to 5,289,562 shares of common stock and sole dispositive power over 5,392,189 shares of common stock and is reporting beneficial ownership of the shares as the parent holding company or control person of BlackRock (Luxembourg) S.A., BlackRock (Netherlands) B.V., BlackRock Advisors, LLC, BlackRock Asset Management Canada Limited, BlackRock Asset Management Ireland Limited, BlackRock Asset Management Schweiz AG, BlackRock Financial Management, Inc., BlackRock Fund Advisors, BlackRock Institutional Trust Company, N.A., BlackRock Investment Management (Australia) Limited, BlackRock Investment Management (UK) Ltd., and BlackRock Investment Management, LLC.

(3) Beneficial ownership information is based on information contained in Schedule 13G filed with the SEC on February 13, 2017, by Cadian Capital Management, LP (“Cadian”) reporting securities deemed to be beneficially owned as of December 31, 2016. Cadian has voting and dispositive power as to 2,777,233 shares of common stock that is shared with Cadian Capital Management GP, LLC and Eric Bannasch.

(4) Beneficial ownership information is based on information contained in Schedule 13G, as amended, filed with the SEC on February 9, 2017, by The Vanguard Group, Inc. (“VGI”) reporting securities deemed to be

beneficially owned as of December 31, 2016. VGI, as the parent company of Vanguard Fiduciary Trust Company ("VFTC") and Vanguard Investments Australia, Ltd. ("VIA") may be deemed to beneficially own the shares held by VFTC and VIA. VFTC is the beneficial owner as to 91,107 shares of common stock as a result of serving as investment manager of collective trust accounts and VIA is the beneficial owner as to 7,200 shares of common stock as a result of serving as investment manager of Australian investment offerings. According to the Schedule 13G, as amended, VGI has sole voting power over 93,289 shares of common stock to and sole dispositive power as to 3,893,659 shares of common stock. VGI has shared voting power over 5,018 shares of common stock and shared dispositive power as to 96,125 shares of common stock. VGI, together with VFTC and VIA, beneficially own 3,989,784 shares of common stock.

(5) Beneficial ownership information is based on information contained in Schedule 13G, as amended, filed with the SEC on February 10, 2017 by Ameriprise Financial, Inc. ("AFI") and Columbia Management Investment Advisers, LLC ("CMIA") reporting securities deemed to be beneficially owned as of December 31, 2016. AFI and CMIA each has shared voting power as to 2,587,133 shares of common stock and shared dispositive power as to 2,612,488 shares of common stock. AFI, as the parent company of CMIA, may be deemed to beneficially own the shares reported by CMIA. AFI, together with CMIA, beneficially owns 2,612,488 shares of common stock.

(6) Includes 52,000 shares of common stock issuable upon the exercise of options granted to Mr. Gecht under the 2009 equity incentive plan, which are currently exercisable and/or exercisable within 60 days of April 24, 2017.

(7) Includes 75,000 shares of common stock issuable upon the exercise of options granted to Mr. Cogan under the 2009 equity incentive plan, which are currently exercisable and/or exercisable within 60 days of April 24, 2017.

(8) Mr. Maydan does not hold any options, which are currently exercisable and/or exercisable within 60 days of April 24, 2017.

(9) Includes 75,000 shares of common stock issuable upon the exercise of options granted to Mr. Georgens under the 2009 equity incentive plan, which are currently exercisable and/or exercisable within 60 days of April 24, 2017.

(10) Includes 50,000 shares of common stock issuable upon the exercise of options granted to Mr. Kashnow under the 2009 equity incentive plan, which are currently exercisable and/or exercisable within 60 days of April 24, 2017.

(11) Mr. Brown does not hold any options, which are currently exercisable and/or exercisable within 60 days of April 24, 2017.

(12) Mr. Olin does not hold any options, which are currently exercisable and/or exercisable within 60 days of April 17, 2017.

(13) Includes an aggregate of 252,000 shares of common stock issuable upon the exercise of options granted to executive officers and directors collectively under the 2009 equity incentive plan, which are currently exercisable and/or exercisable within 60 days of April 24, 2017.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires the Company's officers, directors and persons who beneficially own more than ten percent of a registered class of the Company's equity securities to file reports of security ownership and changes in such ownership with the SEC. Officers, directors and greater than ten percent beneficial owners are also required by rules promulgated by the SEC to furnish the Company with copies of all Section 16(a) forms they file.

Based solely on our review of the copies of such reports furnished to us, the Company believes that all reports required by Section 16(a) of the Exchange Act were filed on a timely basis in 2016.

EXECUTIVE OFFICERS

The following table lists certain information regarding the Company's executive officers as of April 24, 2017**:**

Name	Age	Position
Guy Gecht	51	Chief Executive Officer
Marc Olin	52	Chief Financial Officer

Mr. Gecht was appointed Chief Executive Officer of the Company on January 1, 2000 and was also appointed President of the Company on May 11, 2012, a position he previously held from July 1999 to January 2000. From January 1999 to July 1999, he was Vice President and General Manager of Fiery products of the Company. From October 1995 through January 1999, he served as Director of Software Engineering. Prior to joining the Company, Mr. Gecht was Director of Engineering at Interro Systems, a technology company, from 1993 to 1995. From 1991 to 1993, he served as Software Manager of ASP Computer Products, a networking company, and from 1990 to 1991, he served as Manager of Networking Systems for Apple Israel, a technology company. From 1985 to 1990, he served as an officer in the Israeli Defense Forces, managing an engineering development team, and later was an acting manager of one of the IDF high-tech departments. Mr. Gecht currently serves as a member of the board of directors, audit committee and compensation committee of Check Point Software Technologies Ltd., a global information technology security company, listed on the NASDAQ Global Select Market. Mr. Gecht holds a B.S. in Computer Science and Mathematics from Ben Gurion University in Israel.

Mr. Olin was appointed Chief Financial Officer of the Company in April 2015. Previously he served as Chief Operating Officer of the Company from January 2014 until April 2015. From January 2015 to April 2015, Mr. Olin served as our Interim Chief Financial Officer, and from September 2013 until January 15, 2014, Mr. Olin also served as our Interim Chief Financial Officer. Mr. Olin joined the Company in 2003 when the Company acquired Printcafe Software. From 2003 to the present, Mr. Olin served in various roles at the Company, including, from 2006 to 2014, as Senior Vice President and General Manager of EFI Productivity Software. Mr. Olin holds a B.S. in Graphic Communications Management and Applied Mathematics from Carnegie Mellon University.

COMPENSATION DISCUSSION AND ANALYSIS

The following sections of this proxy statement describe the Company's compensation arrangements with its named executive officers (also referred to below as the "executives"), who, for fiscal year 2016, were Guy Gecht, Chief Executive Officer and President, and Marc Olin, Chief Financial Officer.

Executive Summary

The Compensation Committee oversees the executive compensation program and determines the compensation for the named executive officers. The Compensation Committee believes that compensation paid to the named executive officers should be closely aligned with the performance of the Company on both a short-term and long-term basis, and linked to specific, measurable results intended to create value for stockholders. Consequently, the Compensation Committee sets performance metrics for our incentive compensation programs that match our short-term and long-term operating frameworks and sets target performance levels that are challenging but achievable with good performance, and maximum performance levels that represent stretch goals.

The compensation of the named executive officers consists primarily of three elements—a base salary, an annual incentive program, and long-term incentive awards—that are designed to reward executives for performance and to promote retention among our executive team.

For 2016, we made significant changes in the mix of incentive compensation awards to our named executive officers to build stronger pay-for-performance alignment with our stockholders. This Compensation Discussion and Analysis describes the Company's executive compensation program and the decisions made by the Compensation Committee in 2016. Highlights of the program include:

- ***Our executive compensation program is designed to pay for performance—***For 2016, the vast majority of the target total direct compensation for our named executive officers was in the form of incentive compensation with approximately 87% of the target total direct compensation for Mr. Gecht and approximately 77% for Mr. Olin being in the form of incentive compensation tied to the achievement of specific financial performance goals and/or our stock price. For these purposes, "target total direct compensation" consists of the executive's base salary, target annual incentive award (excluding the "accelerator" annual incentive award opportunity described below), and long-term incentive awards based on the grant date fair value of the award as determined in accordance with ASC 718. No increases were made to executives' base salaries for 2016.

- ***Our annual incentive program is based entirely on objective, financial criteria—***Our executive annual incentive program is intended to encourage our named executive officers to focus on specific short-term financial goals that are important to our success, and which correlate to the long-term goals and strategy of the Company. The performance measures used to determine the payment of awards for 2016 were Company-wide revenue (as determined under generally accepted accounting principles, or "GAAP") and non-GAAP operating income. These measures were chosen because of feedback from our conversations with stockholders and because they align with our annual operating plan and we believe they encourage our executives to make decisions that are in the best long-term interests of the Company and our stockholders. We believe the performance goals established by the Compensation Committee are rigorous and consistent with our pay-for-performance philosophy.

- ***Our annual incentive program is denominated entirely in shares of our stock to further align interests of executives with those of shareholders—***Awards under the 2016 annual incentive program consisted of two incentive opportunities: one for achieving targeted levels of performance (referred to as the "Target" incentive opportunity) and another for achieving above-target levels of performance (referred to as the "accelerator" incentive opportunity). Both of these opportunities were granted in the form of performance-based RSU awards that help further align named executive officers' interests with those of our stockholders and are subject to a cap on the maximum payout

- ***Incentive compensation performance achievement was between threshold and target—***Consistent with our pay for performance philosophy and illustrating the rigorous nature of the goals established for the annual incentive program, as described in more detail below, the Compensation Committee determined that the Company's performance during 2016 was between the threshold and target levels for vesting of Target RSUs under the annual incentive program (although both our revenue and non-GAAP operating income levels increased in 2016 compared with 2015 levels). Accordingly, the Target RSUs vested as to 86% of the units subject to the awards (with 80% vesting of units linked to revenue performance and 92% vesting of the units linked to non-GAAP operating income performance), and no portion of the accelerator RSUs vested.

- ***Two-thirds of 2016 long-term incentive awards were performance based—***Two-thirds of the RSUs granted to our named executive officers in August 2016 under our long-term incentive program were subject to both performance-based and time-based vesting conditions ("performance-based RSUs") and one-third of the RSUs were only subject to time-based vesting conditions ("time-based RSUs"), in each case based on the number of shares subject to each grant. The performance-based RSUs consisted of an award that generally vests based on our revenue growth over the three-year period (2017-2019) covered by the award (subject to a modifier based on our revenue growth over that period relative to a group of NASDAQ listed companies with market capitalizations similar to ours) and a second award that generally vests based on our non-GAAP EPS growth over the three-year period covered by the award (subject to a modifier based on our growth in cash from operating activities (referred to in this

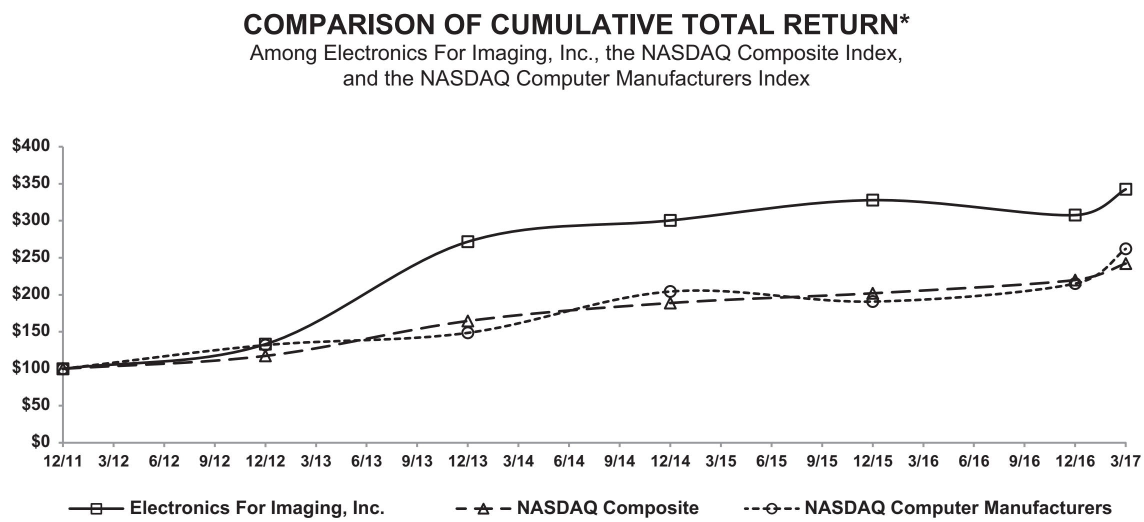
Compensation Discussion and Analysis as "cash from operations") over that period). These awards are intended to both provide a retention incentive (as the awards are also subject to continued employment requirements) and enhance executives' focus on specific financial goals considered important to the Company's long-term growth. The time-based RSUs provide an additional retention incentive for our executives as they are subject to three-year vesting schedules. Because both the time-based RSUs and the performance-based RSUs will generally remain outstanding for a period of years, they also help ensure that executives always have significant value tied to delivering long-term stockholder value. We modified our approach for measuring company performance under our long term incentive awards in 2016 to reflect feedback from stockholders that they would like to see revenue growth measured relative to the growth generated by other comparable companies and to see that our cash from operations is growing at a comparable rate to our non-GAAP EPS growth.

- ***Executives were granted a performance based incentive award based on cash flow***—In February 2016, in response to input from stockholders and to align the interests of executives with the Company's initiative focused on driving near-term cash flow through operational improvements while continuing to maintain revenue and operating income growth, the Company granted executives (along with other key employees) a relatively small incentive opportunity designed to bring immediate focus to the Company's cash from operations. The award was in the form of performance-based RSUs that vest based on the Company's cash from operations as a percentage of its non-GAAP net income in 2016. The Compensation Committee agreed with shareholder input that cash flow is an important measure of Company performance and as such should be integrated into the Company's incentive program. Accordingly, as noted above, the cash from operations is metric is also included as a performance metric in the long-term incentives covering the 2017-2019 performance period.
- ***The Company has no tax gross-up provisions in its agreements with its executive officers—***The Committee believes that it is not in the best interests of shareholders to provide tax gross-up benefits to executives.
- ***We have a clawback policy—***The policy provides that the Company may recover performance-based compensation (whether paid as cash or equity) paid to executive officers in connection with a restatement of the Company's financial results.
- ***We maintain executive stock ownership guidelines—***To further align the interests of our executives and our stockholders, in February 2017, our Board of Directors adopted revised stock ownership guidelines applicable to all executives of the Company. The newly adopted guidelines provide that the Company's chief executive officer should own Company shares with a value of at least five times his base salary and the Company's other executives should own Company shares with a value of at least two times their base salaries. As of April 24, 2017, each of our executive officers had satisfied the applicable stock ownership requirements, which we believe helps to significantly align their interests with those of our stockholders.
- ***Our executives are subject to stock holding periods—***In February 2017, our Board of Directors adopted a requirement that each of our executive officers hold any vested shares they acquire pursuant to their equity awards (after satisfying applicable tax withholding) for at least three years (or, if earlier, termination of the executive's employment with us). This holding period requirement is in addition to the stock ownership guidelines described above.

Performance Overview

The Company believes the compensation program for the named executive officers is instrumental in helping the Company achieve its financial performance. In 2016, the Company achieved record revenue, growing to approximately $992 million, which represented an increase of approximately $109 million or 12% growth over the prior year. As described below, revenue is one of the metrics used to measure the Company's performance for purposes of the executives' annual incentive program and performance-based long-term incentive awards.

To assist stockholders with assessing the Company's executive compensation program, the following chart compares cumulative total returns based on an initial investment of $100 in our common stock to the NASDAQ Composite and the NASDAQ Computer Manufacturers Index. The stock price performance shown on the graph below is not indicative of future price performance and only reflects the Company's relative stock price for the 63-month period ending on March 31, 2017. All values assume reinvestment of dividends and are calculated at the last day of the period.



*$100 invested on 12/31/11 in stock or index, including reinvestment of dividends.
Fiscal year ending December 31.

Compensation Objectives and Philosophy

The Company's executive compensation programs are designed to achieve the following key objectives:

- Attract and retain individuals of superior ability and managerial talent;
- Align compensation with the Company's corporate strategies, business and financial objectives, and the long-term interests of the Company's stockholders;
- Incentivize executives to achieve key strategic and financial performance goals of the Company by linking executive incentive award opportunities to the achievement of these goals; and
- Help ensure that the total compensation is fair, reasonable and competitive.

Role of the Compensation Committee of the Board of Directors

The Compensation Committee has responsibility for approving and evaluating matters relating to the overall compensation philosophy, compensation plans, policies, and programs of the Company. This includes periodically reviewing and approving the Company's named executive officers' annual base salaries, annual incentive awards, long-term incentive awards, employment agreements, severance arrangements, change in control agreements or provisions, as well as any other benefits or compensation arrangements for the named executive officers. In certain circumstances, the Compensation Committee may solicit input from the full Board of Directors before making final decisions relating to compensation of the named executive officers. In fulfilling its responsibilities, the Compensation Committee may consider, among other things, industry and general practices, benchmark data, and marketplace developments.

Role of Management in Assisting Compensation Decisions

Members of the executive management team of the Company, such as the named executive officers, the Vice President of Human Resources, and the General Counsel ("Executive Management"), provide administrative assistance and support for the Compensation Committee from time to time. Executive Management provides recommendations and information to the Compensation Committee to consider, analyze, and review in connection with compensation proposals for the named executive officers. Executive Management does not have any final decision-making authority in regards to named executive officer compensation. The Compensation Committee reviews any recommendations and information provided by Executive Management and approves the final executive compensation package.

Role of Stockholder Say-on-Pay Votes

The Company provides its stockholders with the opportunity to cast an annual advisory vote to approve its executive compensation program (referred to as a "say-on-pay proposal"). At the annual meeting of stockholders held in May 2016, approximately 78% of the votes actually cast on the say-on-pay proposal at that meeting were voted in favor of the proposal. Although the Company would like to see a greater level of support for its executive compensation program, the Company believes that stockholders generally approve of the program, and in recent years, the Company has adopted a number of features (such as granting its executives' annual incentive opportunities entirely in the form of equity awards, strengthening its executive stock ownership guidelines, implementing a holding period requirement for executives and adopting a clawback policy) that it believes have improved the program and are generally favored by stockholders.

During 2016, the Company met with the two principal proxy advisory firms and discussed its compensation program directly with a number of stockholders. Based on the feedback provided, the Company changed its long-term incentive metrics to differentiate from those used under the annual incentive program and include additional criteria considered important by the Company and stockholders. The annual incentive program retains revenue and non-GAAP operating income as metrics while the long-term incentive awards now measure performance based on revenue growth over a three-year period and relative to a defined peer group, and growth in EPS and cash from operations. The Company believes using multiple metrics, including relative metrics, helps give a broader picture of the Company's performance and reduces the risk of over-emphasizing any particular performance metric.

The Company values the views expressed by its stockholders, and the Compensation Committee will continue to consider the outcome of the Company's say-on-pay proposals when making future compensation decisions for the named executive officers.

Use of Outside Advisors

The Compensation Committee may use consultants to assist in the evaluation of compensation for the named executive officers. The Compensation Committee has the sole authority to retain and terminate any compensation consultant engaged to perform these services. The Compensation Committee also has authority to obtain advice and assistance from internal or external legal, accounting, or other advisers.

The Compensation Committee has retained Mercer (US) Inc. ("Mercer") as its independent compensation consultant to provide information, analyses, and advice regarding executive and director compensation. For 2016, Mercer also assisted the Compensation Committee in its assessment of the potential relationship between the Company's compensation program and risk-taking by management. For more information, see the "Compensation Risk Assessment" section on page 58 of this Proxy Statement.

In the course of conducting its activities, Mercer attended meetings of the Compensation Committee and presented its findings and recommendations for discussion. During the course of the year, Mercer worked with management to obtain and validate data, review materials, and recommend potential changes. Mercer invoiced the Company for approximately $149,500 in fees in connection with the Compensation Committee's determination of a variety of components of executive and board of director compensation during fiscal year 2016. Mercer is a subsidiary of Marsh & McLennan Companies, Inc. ("MMC"), a diversified conglomerate of companies that provide insurance, strategy, and human resources consulting services. In 2016, other Mercer business segments received approximately $75,000 in fees for insurance brokerage services. The decision to engage Mercer to provide services other than assisting the Compensation Committee with executive compensation matters was made by members of management. The Compensation Committee has reviewed the other services provided by Mercer and, after consideration of such services and other factors prescribed by the SEC for purposes of assessing the independence of compensation consultants, has determined that no conflicts of interest exist between the Company and Mercer (or any individuals working on the Company's account on Mercer's behalf).

Review of External Compensation Data

The Compensation Committee does not set compensation levels at any specific level or percentile against the peer group (i.e., the Compensation Committee does not "benchmark" compensation at any particular levels relative to these companies). However, the Compensation Committee periodically reviews market compensation levels to inform its decision-making process and to determine whether the total compensation opportunities for the Company's named executive officers are appropriate in light of factors such as the compensation arrangements for similarly situated executives in the market, and may make adjustments when the Compensation Committee determines they are appropriate.

Historically, the Compensation Committee, with assistance from Mercer, has used a peer group of companies each year to provide a basis of comparison for the Company's executive compensation programs. The peer group is determined based generally on the following criteria:

- U.S. publicly traded companies;
- Companies of comparable size with revenue within a range of approximately one-half to two times the Company's revenue;
- Companies in technology-related industries: Communications Equipment, Computer Storage & Peripherals, Computer Hardware, Electronic Equipment and Instruments, and Systems Software; and
- Companies with similar business models and characteristics: business to business sales, manufacturing capabilities, software products and/or integrated solutions/services.

Our 2016 peer group consisted of the following companies:

3D Systems Corporation	Fortinet, Inc.
Analogic Corporation	Infinera Corporation
Cirrus Logic, Inc.	Netgear, Inc.
Commvault Systems, Inc.	Netsuite Inc.
Cray Inc.	Plantronics, Inc.
Extreme Networks, Inc.	QLogic Corporation
F5 Networks, Inc.	Synaptics Incorporated
Finisar Corporation	

We periodically review our peer group to ensure that companies continue to be size and business appropriate for compensation comparison purposes. With assistance from Mercer, we revised our peer group for 2016. Two companies (Aruba Networks and Emulex) were removed because they were acquired by other companies, and three companies (Zebra Technologies, Silicon Graphics International and Quantum) were no longer considered to be of comparable size with the Company. In order to ensure the peer group included an appropriate number of companies, we added five companies that we believe are reasonable comparators from a size and business characteristic standpoint. These five new peer companies are Cray Inc., Extreme Networks, Inc., Infinera Corporation, Netsuite Inc., and Plantronics, Inc. The resulting peer group includes companies from relevant technology subsectors with revenue that approximates one-half to two times our revenue that generally share other relevant characteristics such as similarity in business models, multiple product categories and divisions, and a global operations.

Executive Compensation Elements

For the 2016 fiscal year, the principal elements or components of compensation for the named executive officers were: (1) base salary; (2) annual incentive award; and (3) long-term incentive awards.

In determining each element of executive compensation, the Compensation Committee considers a number of factors, such as the executive's employment experience, individual performance during the year, potential to enhance long-term stockholder value, compensation history and prior equity awards. In addition, the Compensation Committee considers the Company's performance, competitive executive compensation practices, and current compensation levels and types within the peer group. Since there are no fixed policies regarding the amount and allocation for each element of executive compensation, the determination and composition of total compensation is up to the discretion of the Compensation Committee and is decided in its judgment. However, the amounts paid out under our incentive-based programs are determined based on the Company's achievement of quantitative performance goals as discussed in greater detail below.

The difference in the levels of compensation between the named executive officers reflects consideration of the executive's roles and responsibilities, the executive's tenure with the Company as well as the other factors mentioned above. The Compensation Committee considers the value of an individual's entire compensation package when establishing the appropriate levels of compensation for each element.

Base Salary

The Company provides the named executive officers with a fixed, annual base salary. In setting base salaries for the named executive officers, the Compensation Committee considers a number of factors, including the executive's prior salary history, current compensation levels, and performance. In addition, the Compensation Committee considers Company performance and salary levels within our peer group. There are no formulaic increases. Instead, the Compensation Committee exercises its judgment and discretion when determining and approving increases to the annual base salary of each named executive officer.

In February 2016, the Compensation Committee reviewed the base salary levels for Messrs. Gecht and Olin. Mr. Gecht recommended, and the Compensation Committee approved, that the base salary for each named executive officer for 2016 would remain at the same levels as 2015. Accordingly, Mr. Gecht's base salary remained at $620,000 (the same level as his salary has been each year since 2011), and Mr. Olin's base salary remained at $310,000 (the level established in January 2014 upon his appointment to a named executive officer position). The Compensation Committee considered the base salary levels for each of the named executive officers to be appropriate in light of each executive's experience and responsibilities.

Annual Incentive Awards

2016 Annual Incentive Program

The Company believes that a significant portion of executive compensation should be directly related to the Company's overall financial performance, stock price performance, and other relevant financial factors that affect stockholder value. Accordingly, the Company sets goals that link executive compensation to the Company's financial performance. The executive annual incentive program allows named executive officers to receive incentive compensation if specified corporate performance measures are achieved. Payments under the annual incentive program are generally contingent upon the executive's continued employment through the vesting date, subject to the terms of his employment agreement, and are determined by the Compensation Committee based on performance against the pre-established goals. The Compensation Committee believes that the annual incentive program provides an incentive that motivates and rewards executives to achieve specific financial objectives.

The target annual incentive award for each named executive officer is calculated as a percentage of his base salary. The Compensation Committee sets these individual targets in its judgment based on its review of the executive's total compensation package, compensation levels at the peer group companies, and its assessment of the executive's past and expected future contributions.

In February 2016, the Compensation Committee approved the 2016 annual incentive program (the "2016 Program") for the named executive officers and established their target annual incentive awards under the program as set forth below. These target incentive compensation amounts remained unchanged from the prior fiscal year.

Named Executive Officer	Target Annual Incentive (Percentage of Base Salary)
Guy Gecht	105%
Marc Olin	70%

In executing the program, the Compensation Committee approved grants of performance-based RSU awards in February 2016 to each of the named executive officers (referred to in this discussion as "Target RSUs"). Fifty percent of each executive's Target RSU award was eligible to vest based on the Company's non-GAAP operating income for 2016 relative to the performance target established by the Compensation Committee, and the remaining fifty percent of the award was eligible to vest based on the Company's revenue (as determined in accordance with GAAP) relative to the performance target. However, in each case, the vesting of the Target RSU awards was also contingent on the Company's achieving a minimum threshold for non-GAAP operating income for 2016 determined by the Compensation Committee. The purpose of this non-GAAP operating income threshold was to ensure sufficient profitability before providing for payouts based on revenue. The Target RSU awards do not have an upside incentive opportunity and the maximum payout is capped at target.

To incentivize and reward executives for an above-target performance results, each named executive officer, in addition to the Target RSU awards described above, each named executive officer was provided with an opportunity to receive an "accelerator" annual incentive award if both the Company's revenue and non-GAAP operating income for 2016 exceeded the performance targets established by the Compensation Committee for the Target RSU awards. The accelerator annual incentive awards were also granted in February 2016 in the form of RSUs (referred to in this discussion as "accelerator RSUs") payable in shares of the Company's common stock if the applicable performance goals were achieved. As with the Target RSUs, vesting of the accelerator RSUs was based 50% on the Company's non-GAAP operating income for 2016 and 50% on the Company's revenue (as determined in accordance with GAAP) for 2016.

For each named executive officer's Target RSU awards, the number of RSUs subject to the award was determined by dividing the executive's target annual incentive amount (the target annual incentive percentage as set forth in the table above multiplied by the executive's annual base salary) by the Company's closing stock price on February 8, 2016. The number of RSUs subject to each named executive's officer's accelerator RSU award was also determined by dividing the executive's target annual incentive amount by the Company's closing stock price on February 8, 2016. Accordingly, the executive could vest in the number of Target RSUs (determined based on 100% of his target annual incentive) for achievement of the targeted levels of performance, and up to two times that amount (taking both the Target RSUs and accelerator RSUs into account) for performance at the maximum levels. The maximum number of RSUs that may vest under each Target RSU award and under each accelerator RSU award is 100% of the units subject to the award.

In structuring the Target and the accelerator components of the 2016 Program as awards of RSUs, the Compensation Committee intended to provide a further link between our executives' incentive compensation and the value created for our stockholders. The Compensation Committee selected revenue and non-GAAP operating income as the performance measures for the 2016 Program to create further incentives for management to focus on the Company's revenue growth and profitability because the Compensation Committee believes these metrics are key to the Company's long-term growth and success. For these purposes, non-GAAP operating income is defined as operating income determined in accordance with GAAP, adjusted to remove the impact of the certain expenses and gains, in each case consistent with the determination of non-GAAP operating income in our financial reporting. These adjustments are specified in the Unaudited Non-GAAP Financial Information section of the Company's Annual Report on Form 10-K for the year ended December 31, 2016. The Compensation Committee believes that these adjustments to operating income are appropriate for purposes of our incentive programs and produce a better measure of the executives' impact on the ongoing operating performance of the Company over the corresponding year.

The performance targets selected by the Compensation Committee for the awards under the 2016 Program were based on the Company's operating plan, which was approved by the Board of Directors. For each metric, the 2016 threshold performance level for the Target RSUs is significantly greater than the Company's actual performance level in 2015 as determined for purposes of our 2015 annual incentive program, and the target performance level for the Target RSUs (which is also the threshold performance level for the accelerator RSUs) is significantly higher than these 2015 performance levels.

The threshold and target performance levels for each of the Target RSUs and the accelerator RSUs under the 2016 Program are set forth in the table below.

		Base Program		Accelerator	
Metrics	**Weighting**	**Threshold**	**Target**	**Target**	**Maximum**
Revenue (in millions)	50%	$940	$1,000	$1,000	$1,050
(% of program component earned)	—	0%	100%	0%	100%
Non-GAAP operating income (in millions)	50%	$135	$ 157	$ 157	$ 170
(% of program component earned)	—	0%	100%	0%	100%

With respect to the Target RSUs the minimum threshold for non-GAAP operating income for 2016 established by the Compensation Committee was $135 million. None of the RSUs granted under the 2016 Program would vest if this minimum threshold for non-GAAP operating income was not achieved, and none of the RSUs that were tied to revenue would vest if the minimum threshold for revenue set forth above was not achieved. If the minimum threshold level for non-GAAP operating income was achieved, the Target RSUs related to non-GAAP income would vest with respect to between 0% and 100% of the units, with 0% of the units vesting at the "Threshold" level for non-GAAP operating income in the table above and with the vesting increasing on a pro-rata basis up to 100% of the units vesting if the "Target" level for non-GAAP operating income in the table above were met or exceeded. If the minimum threshold level for both non-GAAP operating income and revenue was achieved, the Target RSUs related to revenue would vest with respect to between 0% and 100% of the units, with 0% of the units vesting at the "Threshold" level for revenue in the table above and with the vesting increasing on a pro-rata basis up to 100% of the units vesting if the "Target" level for revenue in the table above were met or exceeded. With respect to the accelerator RSUs, no portion of the award would vest unless the Company met or exceeded the "Target" levels for both revenue and non-GAAP operating income set forth above. If both of these "Target" levels were exceeded, between 0% and 100% of the accelerator RSUs allocated to each performance metric would vest, with the portion of the accelerator RSUs allocated to a performance metric that vest being interpolated pro-rata on a straight-line basis between 0% for achievement of the "Target" level and 100% for achievement of the "Maximum" level.

In determining whether performance targets have been achieved, the Company's performance results were adjusted as follows: (a) bookings achieved in 2016 and revenue deferred from 2016 into a subsequent reporting period were included in the calculation; and (b) revenue and non-GAAP operating income from each acquisition completed during 2016 was also included in the calculation to the extent that such revenue and non-GAAP operating income were generated through Company sales channels existing prior to the completion of each such acquisition. The Compensation Committee believed these adjustments were appropriate to more accurately reflect the Company's performance during the fiscal year. In February 2017, the Compensation Committee reviewed the Company's total 2016 fiscal year revenue and non-GAAP operating income and determined that although the Company had achieved record GAAP revenue for 2016, the Company's performance achievement was between the Threshold and Target performance levels for both measures for the Target RSU awards as identified in the above table. For purposes of the 2016 Program, the Company's 2016 revenue was $988 million (as compared to approximately $992 million as determined under GAAP) and the Company's non-GAAP operating income was $155 million (as compared to non-GAAP operating income of approximately $148 million as reflected in the Company's financial reporting), with such operating income determined in each case based on the adjustments to GAAP operating income provided in the Unaudited Non-GAAP Financial Information section of the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

Accordingly, the Compensation Committee determined that approximately 86% of the Target RSUs granted to each of Messrs. Gecht and Olin under the 2016 Program (approximately 80% as to the revenue component of these awards and approximately 92% as to the non-GAAP operating income component of the awards) had vested and that no portion of the accelerator RSUs granted under the program had vested.

2016 Cash From Operations Performance Award

In February 2016, as part of its determination of annual awards and in response to feedback from stockholders the Compensation Committee approved relatively smaller grants of performance-based RSU awards to Messrs. Gecht and Olin. The Compensation Committee's intent in granting the award was to align the interests of the executives with a broader Company initiative focused on driving near-term cash flow through operational improvements, while simultaneously driving Company revenue and operating income growth. These awards were eligible to vest based on the Company's cash from operations for 2016 as a percentage of the Company's non-GAAP net income for the year. For these purposes, "non-GAAP net income" means net income as determined in accordance with GAAP subject to the same non-GAAP adjustments identified above for non-GAAP operating income. The threshold and target levels, and the payout percentages, are set forth below. If the Company achieves performance between the levels set forth below, the total percentage earned shall be interpolated pro-rata on a straight-line basis between the two closest performance levels. The Company must achieve the threshold cash from operations percentage of non-GAAP net income goal for any portion of the award to vest. In no event will the award vest as to more than 100% of the RSUs subject to the award.

Performance Level	Cash From Operations Percentage of Non-GAAP Net Income	Vesting Percentage
Threshold	66%	0%
Target or Above	66% to 90%	100%

In February 2017, the Compensation Committee determined that the Company's cash from operations as a percentage of non-GAAP net income for 2016 was 97%, and accordingly, 100% of the units subject to the award vested.

In keeping with the Company's initiative focused on driving near-term cash flow through operational improvements, the Compensation Committee continued to emphasize the importance of cash from operations by including it as a performance measure under the long-term incentive awards granted to executives and other key employees in August 2016 that cover the 2017-2019 performance period. The Compensation Committee also determined in February 2017 that cash from operations growth as a percentage of non-GAAP net income would serve as one of the metrics for the 2017 annual incentive program.

Long-Term Incentive Awards

The Company believes that equity ownership is important to closely align the interests of named executive officers with those of Company stockholders and thereby promote incentives to achieve sustained creation of stockholder value. For 2016, as in prior years, approximately two-thirds of each named executive officer's annual long-term incentive award is in the form of performance-based RSUs that vest based upon the Company's achievement of pre-established financial goals. We believe these performance-based RSUs create additional incentives for executives to achieve goals considered important to the Company's long-term growth and success. In order to provide an incentive for continued employment, the vesting of performance-based RSUs is generally subject to the executive's continued employment through the time the applicable performance goals are achieved. Time-based RSUs, which vest based on continued employment (typically over a three-year vesting schedule), are included in the equity award mix to provide an enhanced retention incentive since these awards are not subject to the risks of performance-based vesting conditions.

The Compensation Committee determines the value of each executive's equity award in its judgment, taking into consideration its subjective assessment of the executive's individual performance, the retention value of these grants and the executives' prior long-term incentive awards, peer company long-term incentive awards and total direct compensation data provided by Mercer, the number of shares remaining under the Company's equity incentive plan, the dilutive impact of equity award grants, and the Company's philosophy that long-term equity incentives should constitute a substantial portion of each executive's total direct compensation. The number of shares subject to each equity-based award granted to the executive officers in 2016 is reported in the Grants of Plan-Based Awards Table below.

2016 Long-Term Incentive Awards

Our incentive metrics reflect our shareholders' interests: Through our dialogue with shareholders and our analysis of company and market performance, we have refined our incentive plan measures to more precisely capture the balance of financial metrics that align with our strategic growth strategy – increasing revenue at a pace that exceeds that of our peers, and maximizing EPS while maintaining a focus on cash flow growth.

In August 2016, the Compensation Committee approved a long-term incentive grant of performance-based covering a three-year performance period (2017-2019) to each of our named executive officers. In addition, the Compensation Committee approved a time-based award to each of our named executive officers.

Based on our dialogue with shareholders and shareholder advisor groups, we refined our long-term incentive plan measures to more precisely capture the balance of financial metrics that align with our strategic growth strategy and complement the outcomes rewarded through the annual incentive program. As such, we adjusted the metrics in our long-term incentive plan to motivate and reward our executives to focus on the following objectives;

- Strong absolute *and* relative revenue growth—increase revenue at a pace that aligns with our operating plan while exceeding that of broad industry averages
- Strong earnings *and* cash flow growth—maximize EPS while simultaneously increasing cash flow

The performance-based RSUs comprise two-thirds of the total number of RSUs subject to the 2016 long-term incentive award. Consistent with the first objective above, sixty percent of the performance-based portion of the award vest based on the Company's achievement of revenue growth targets over a three year period and also based on the Company's revenue growth over that period relative to a group of NASDAQ listed companies with market capitalization between $500 million and $5 billion (the "Revenue Growth Performance RSUs"). Consistent with the second objective above, the remaining forty percent of the performance-based RSUs vest based on the Company's achievement of non-GAAP EPS growth and cash from operations growth targets (the "EPS Growth Performance RSUs"). For each performance-based RSU, the Company must achieve a threshold performance level for any portion of the award to vest.

Revenue Growth Performance RSUs. For the Revenue Growth Performance RSUs, the awards vest in three equal annual installments based on the Company's revenue growth measured on both an absolute and relative basis over three performance periods—the first consisting of 2017, the second consisting of 2017 and 2018, and the third consisting of 2017, 2018, and 2019. The vesting percentage for each annual tranche is determined as follows:

$$\left(\begin{array}{c}\textit{Revenue Achievement}\\ \textit{Amount}\end{array}\right) \times \left(\begin{array}{c}\textit{Nasdaq Revenue}\\ \textit{Growth Modifier}\end{array}\right) = \left(\begin{array}{c}\textit{Percentage of}\\ \textit{RSUs Vesting}\end{array}\right)$$

For each performance period, a vesting percentage is determined based on the Company's revenue growth for that period against targets established by the Compensation Committee. The Compensation Committee set the performance goals at levels that it believed would be challenging but attainable if the Company performed at a high level. The target level of revenue growth for each year during the performance period is set higher than the median revenue growth level for 2016 for the NASDAQ companies within the market cap range identified below. The threshold, target, and overachievement payout percentages are set forth below. If the Company achieves performance between the levels set forth below, the total percentage earned shall be interpolated pro-rata on a straight-line basis between the two closest performance levels. The Company must achieve the threshold revenue growth goal for a particular performance period for any of the Revenue Growth Performance RSUs related to that performance period to vest.

Revenue Growth Level Achieved for Applicable Performance Period	Vesting Percentage
Below Threshold	0%
Threshold	50%
Target	100%
Overachievement or Above	150%

The vesting percentage is then subject to a modifier based on a comparison of the Company's revenue growth for each year in the applicable performance period over the prior calendar year (specifically, 2017 revenue growth increase when compared to 2016 revenue growth, 2018 revenue growth increase as compared to 2017 revenue growth, and 2019 revenue growth increase as compared to 2018 revenue growth for the first, second and third tranches, respectively) as compared to the median growth over the prior calendar year for the companies listed in the NASDAQ composite index with a market cap between $500 million and $5 billion at the end of the relevant measurement period as set forth in the table below.

Relative Revenue Growth Level Achieved for Applicable Performance Period	NASDAQ Revenue Growth Modifier
Threshold or Below	80%
Target	100%
Overachievement or Above	120%

However, if the Company achieves the revenue growth threshold for the applicable performance period, the application of the NASDAQ revenue growth modifier may not reduce the vesting percentage for that period below 50%. Similarly, in no event may the vesting percentage for a performance period be greater than 150% (by application of the NASDAQ revenue growth modifier or otherwise). If the Company's revenue growth relative to the median for the NASDAQ group is between the levels set forth above, the multiplier shall be interpolated pro-rata on a straight-line basis between the two closest performance levels.

EPS Growth Performance RSUs. For the EPS Growth Performance RSUs, the awards vest in three equal annual installments based on the Company's EPS and cash from operations over each of the three calendar years 2017, 2018, and 2019. The vesting percentage for each annual tranche is determined as follows:

$$\left(\begin{array}{c}\textit{EPS Growth}\\ \textit{Achievement}\\ \textit{Amount}\end{array}\right) \times \left(\begin{array}{c}\textit{Cash from Operations}\\ \textit{Growth Modifier}\end{array}\right) = \left(\begin{array}{c}\textit{Percentage of}\\ \textit{RSUs Vesting}\end{array}\right)$$

For each performance year, a vesting percentage is determined based on the Company's growth in non-GAAP EPS for that year over its non-GAAP EPS for the prior year. Non-GAAP EPS is subject to the same adjustments described above for non-GAAP operating income. The Compensation Committee set the performance goals at levels that it believed would be challenging but attainable if the Company performed at a high level. The threshold, target, and overachievement payout percentages are set forth below. If the Company achieves performance between the levels set forth below, the total percentage earned shall be interpolated pro-rata on a straight-line basis between the two closest performance levels. The Company must achieve the threshold EPS growth goal for a particular performance period for any of the EPS Growth Performance RSUs related to that performance period to vest.

Non-GAAP EPS Growth Level Achieved for the Applicable Performance Period	Vesting Percentage
Below Threshold	0%
Threshold	50%
Target	100%
Overachievement or Above	150%

The vesting percentage is then subject to a modifier based on the rate of growth of the Company's cash from operations over the prior fiscal year compared with the rate of growth of its non-GAAP operating income (as defined above) over the prior fiscal year. The threshold, target, and overachievement payout percentages are set forth in the table below.

Cash from Operations Growth Level Achieved for the Applicable Performance Period	Cash from Operations Growth Modifier
Threshold or Below	80%
Target	100%
Overachievement or Above	120%

However, if the Company achieves the EPS growth threshold for the applicable performance year, the application of the cash from operations growth modifier may not reduce the vesting percentage for that year below 50%. Similarly, in no event may the vesting percentage for a performance year be greater than 150% (by application of the cash from operations growth modifier or otherwise). If the Company's cash from operations growth relative to its non-GAAP operating income growth is between the levels set forth above, the multiplier shall be interpolated pro-rata on a straight-line basis between the two closest performance levels.

Forfeiture of the First Tranche of 2015 Performance Awards

As described in the Company's 2016 proxy statement, the Company granted performance-based RSU awards to Messrs. Gecht and Olin in September 2015 that would vest based on the Company's achievement of revenue with at least 5% organic growth as compared to the preceding four-quarter period and at least 15% non-GAAP operating margin during such four-quarter period (to be calculated in accordance with the methodology approved by the Compensation Committee for these awards and described in the Company's 2016 proxy statement), and as follows:

Portion of Award That Vests	Performance Goal	Performance Period
One-third	For any period of four fiscal quarters: (i) revenue of at least $1 billion and (ii) non-GAAP operating margin of at least 15%	By end of fourth quarter of FY16
One-third	For any period of four fiscal quarters: (i) revenue of at least $1.1 billion and (ii) non-GAAP operating margin of at least 15%	By end of fourth quarter of FY17
One-third	For any period of four fiscal quarters: (i) revenue of at least $1.2 billion and (ii) non-GAAP operating margin of at least 15%	By end of fourth quarter of FY18

In February 2017, the Compensation Committee determined that the performance goals for the first tranche of the award had not been achieved. Accordingly, the first tranche of both Mr. Gecht's award (consisting of 26,420 units) and Mr. Olin's award (consisting of 4,529) was deemed forfeited as of the last day of the performance period.

Vesting of 2014 Performance Awards

As described in the Company's 2015 proxy statement, the Company granted performance-based RSU awards to Messrs. Gecht and Olin in August 2014 that vested based on the Company's achievement of specified levels of revenue and non-GAAP operating income (to be calculated in accordance with the methodology approved by the Compensation Committee for these awards and described in the Company's 2015 proxy statement) as follows:

Portion of Award That Vests	Performance Goal	Performance Period
One-third	For any period of four fiscal quarters: (i) revenue of at least $880 million and (ii) non-GAAP operating income of at least $123 million	By end of fourth quarter of FY15
One-third	For any period of four fiscal quarters: (i) revenue of at least $1 billion and (ii) non-GAAP operating income of at least $145 million	By end of fourth quarter of FY16
One-third	For any period of four fiscal quarters: (i) revenue of at least $1.1 billion and (ii) non-GAAP operating income of at least $160 million	By end of fourth quarter of FY17

In February 2016, the Compensation Committee determined that, for the period from the first quarter of fiscal 2015 through the fourth quarter of fiscal 2015, the Company's revenue was $883 million and the Company's non-GAAP operating income was $128 million. Accordingly, the units subject to the first tranche of each of these awards (15,128 units for Mr. Gecht; 3,883 units for Mr. Olin) vested upon the Compensation Committee's determination.

In February 2017, the Compensation Committee determined that, for the period from the first quarter of fiscal 2016 through the fourth quarter of fiscal 2016, the Company's revenue was $1.003 billion and the Company's non-GAAP operating income was $156 million. Accordingly, the units subject to the second tranche of each of these awards (15,127 units for Mr. Gecht; 3,883 units for Mr. Olin) vested upon the Compensation Committee's determination.

Forfeiture of 2014 Performance Awards

As described in the Company's 2015 proxy statement, the Company granted performance-based RSU awards to Mr. Olin in January 2014 and to Mr. Gecht in August 2014 that would vest only if the Company achieved at least $1 billion in revenue and $2.50 in non-GAAP EPS over any four consecutive quarters on or before December 31, 2016. In February 2017, the Compensation Committee determined that the performance goals for the first tranche of the award had not been achieved. Accordingly, both Mr. Gecht's award (consisting of 22,691 units) and Mr. Olin's award (consisting of 12, 909 units) were deemed forfeited as of the last day of the performance period.

Vesting of 2013 Performance Awards

As described in the Company's 2014 proxy statement, the Company granted performance-based RSU awards to Messrs. Gecht and Olin in August 2013. The vesting of each of these awards is contingent on the Company's achievement of specified levels of revenue and non-GAAP operating income (to be calculated in accordance with the methodology approved by the Compensation Committee for these awards and described in the Company's 2014 proxy statement) as follows:

Portion of Award That Vests	Performance Goal	Performance Period
One-third	For any period of four fiscal quarters: (i) revenue of at least $747 million and (ii) non-GAAP operating income of at least $97 million	By end of third quarter of FY14
One-third	For any period of four fiscal quarters: (i) revenue of at least $802 million and (ii) non-GAAP operating income of at least $106 million	By end of second quarter of FY16
One-third	For any period of four fiscal quarters: (i) revenue of at least $842 million and (ii) non-GAAP operating income of at least $113 million	By end of second quarter of FY17

The first tranche of one-third of the RSUs subject to each of the awards granted to Messrs. Gecht and Olin vested in August 2014 and the second tranche vested in August 2015. In February 2016, the Compensation Committee determined that the Company's revenue was $883 million and the Company's non-GAAP operating income was $128 million. Accordingly, the units subject to the third tranche of each of these awards (29,600 units for Mr. Gecht; 5,250 units for Mr. Olin) vested upon the Compensation Committee's determination.

Vesting of 2009 Performance-Based Option

As previously disclosed in the Company's 2009 proxy statement, the Company granted Mr. Gecht a performance-based option during 2009 that would vest based on the Company's annual return on equity percentage, on a non-GAAP basis, (the "Annual ROE Percentage"), as compared with the Company's Annual ROE Percentage for its 2008 fiscal year, which was 7.1% (the "2008 ROE Percentage") according to the following schedule (for these purposes, non-GAAP return on equity is defined as non-GAAP net income (as defined above) divided by stockholders' equity):

Portion of Option That Vests	Amount by Which Annual ROE Percentage Exceeds 2008 Annual ROE Percentage
One-fifth	2% or more
One-fifth	4% or more
One-fifth	6% or more
One-fifth	8% or more
One-fifth	10% or more

The first tranche of the option (representing 20% of the total grant) vested in February 2012. In February 2016, the Compensation Committee determined that the second tranche of the option (representing 20% of the total grant) vested based on the Company's Annual ROE Percentage of 11.9% for the 2015 fiscal year. This option expired in August 2016, and the remaining three tranches of the option terminated on the expiration date.

Severance Arrangements

Each of the named executive officers currently employed by the Company is a party to an employment agreement with the Company that provides for severance benefits under certain events, such as a termination without cause or the executive resigning for good reason. Because the Company believes that a resignation by an executive for good reason (or constructive termination) is conceptually the same as an actual termination by the Company without cause, the Company believes it is appropriate to provide severance benefits following such a constructive termination of the executive's employment.

The employment agreements are designed to promote stability and continuity of senior management. In addition, the Company recognizes that the possibility of a change of control may exist from time to time, and that this possibility, and the uncertainty and questions it may raise among management, may result in the departure or distraction of management personnel to the detriment of the Company and its stockholders. Accordingly, the Compensation Committee has determined that appropriate steps should be taken to encourage the continued attention and dedication of members of the Company's management to their assigned duties. As a result, the employment agreements include provisions relating to the payment of severance benefits under certain circumstances in the event of a change of control. Under the change of control provisions, in order for severance benefits to be triggered, an executive must be involuntarily terminated without cause or the executive must leave for good reason within 24 months after a change of control.

Information regarding the severance benefits for the named executive officers under their employment agreements is provided under the headings "Employment Agreements" and "Potential Payments upon Termination or Change of Control" on pages 56 through 57 of this Proxy Statement.

Other Elements of Compensation and Perquisites

We do not provide any material perquisites to our executive officers. Executives are eligible to participate in the Company's 401(k) savings plan on the same terms and conditions as other Company employees. In addition, our executive officers are eligible to participate in the Company's group health and welfare plans on the same terms and conditions as other Company employees.

Tax Considerations

Section 162(m) of the Internal Revenue Code generally disallows a tax deduction to public corporations for compensation over $1 million paid for any fiscal year to each of the corporation's named executive officers, other than the chief financial officer, as of the end of the fiscal year. However, Section 162(m) exempts qualifying performance-based compensation from the deduction limit if certain requirements are met. Although the Compensation Committee considers the impact of Section 162(m) when developing and implementing executive compensation programs, the Compensation Committee believes that it is important and in the best interests of stockholders to preserve flexibility in designing compensation programs. Accordingly, the Compensation Committee retains discretion to approve compensation arrangements for executive officers that are not fully deductible. Further, because of ambiguities and uncertainties as to the application and interpretation of Section 162(m) and the regulations issued thereunder, no assurance can be given, notwithstanding the Compensation Committee's efforts, that compensation intended to satisfy the requirements for deductibility under Section 162(m) does in fact do so.

Stock Ownership Policy

In February 2017, the Board of Directors revised our Executive Stock Ownership Policy to apply to all of our executive officers (as opposed to only the Chief Executive Officer). Under the revised policy, the Chief Executive Officer should own Company shares having an aggregate value of at least five times his or her then-effective annual base salary, and each other executive officer should own Company shares having an aggregate value of at least two times his or her then-effective annual base salary. The executive should achieve this minimum share ownership position within three years of being appointed to an executive position. For these purposes, shares owned outright by the executive, as well as shares owned in trust for his or her benefit or by his or her family members and shares subject to outstanding restricted stock and RSU awards subject to time-based vesting requirements held by the executive, are considered to be owned by the executive. Unvested RSUs subject to performance-based vesting requirements and vested or unvested stock options are not taken into account in determining the executive's beneficial ownership. Mr. Gecht's and Mr. Olin's current equity holdings each exceed their required ownership levels under the policy.

Stock Holding Period Requirements

In February 2017, our Board of Directors adopted a requirement that each of our executive officers hold any vested shares they acquire pursuant to their equity awards granted on or after January 1, 2016 (after satisfying applicable tax withholding) for at least three years (or, if earlier, termination of the executive's employment with us). This holding period requirement is in addition to the stock ownership requirements described above.

Clawback Policy

The Board of Directors has adopted a clawback policy that provides for the Company, in the discretion of the Board of Directors or as required by law or NASDAQ listing standards, to cancel or recover performance-based compensation, whether in the form of cash or equity-based awards, from its executive officers in the event the Company's publicly-reported financial results are restated due to material noncompliance with any financial reporting requirement under applicable securities laws and such compensation was received during the last three complete fiscal years and would not have been paid under the restated financial results.

2017 Compensation Decisions

In February 2017, the Compensation Committee approved the 2017 annual incentive program (the "2017 Program") for Messrs. Gecht and Olin. As under the 2016 Program, each executive is eligible to receive incentive compensation payable in shares of our common stock based upon the Company's financial performance relative to targets established by the Compensation Committee. In execution of the program, the Compensation Committee approved grants of performance-based RSUs in February 2017 to each executive, with the target number of RSUs subject to each executive's award determined by dividing the executive's target annual incentive award amount by the closing price of the Company's common stock on February 17, 2017. The maximum number of RSUs that may vest under each executive's award is 200% of the executive's target number of RSUs. We believe structuring the executives' annual incentive awards as performance-based RSUs increases the alignment of the executives' interests with those of stockholders since the ultimate value realized by the executive depends on both our operating financial performance and stock price performance over the course of the year.

The performance metrics under the 2017 Program for each named executive officer will be the Company's revenue (weighted 40%), non-GAAP operating income (weighted 40%), and cash from operations as a percentage of non-GAAP net income (weighted 20%). The Compensation Committee established threshold, target, and overachievement levels for each metric, with 0% vesting at the applicable threshold level and increasing on a pro-rata, straight-line basis up to 100% vesting at the applicable target level and 200% vesting at or above the applicable overachievement level. However, no portion of the named executive officer's RSUs (including the RSUs allocated to the revenue and cash from operations metrics) will vest if the Company does not achieve the minimum threshold for non-GAAP operating income.

In February 2017, the Compensation Committee reviewed the base pay and incentive opportunities for our named executive officers and determined that the target annual incentive award amount for Mr. Gecht would be increased to 130% of his base salary and the target annual incentive award amount for Mr. Olin would be increased to 80% of his base salary. The Compensation Committee determined that an increase in his bonus opportunity was appropriate in light of Mr. Gecht's continued leadership of the Company leading to record revenue in 2016, the Company's goals for 2017 and beyond, and the fact that Mr. Gecht's base salary has not been adjusted since 2011. In February 2017, the Compensation Committee also approved an increase in Mr. Olin's annual base salary from $310,000 (the level established in January 2014 upon his appointment to a named executive officer position) to $370,000. In April 2017, Mr. Olin requested that the increase in his base salary be suspended effective May 1, 2017 until such time as the Company achieves a fiscal quarter of year-over-year revenue growth and non-GAAP earnings per share income growth (in each case, as compared with the corresponding quarter of the preceding fiscal year). The Compensation Committee approved the request.

Compensation Committee Interlocks and Insider Participation

None of the members of the Compensation Committee has at any time been one of the Company's executive officers or employees or had any relationships requiring disclosure by the Company under the SEC rules requiring disclosure of certain relationships and related party transactions. None of the Company's executive officers currently serves, or in the past fiscal year has served, as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving on the Board of Directors or Compensation Committee.

COMPENSATION COMMITTEE REPORT

The Compensation Committee of the Company has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management and, based on such review and discussions, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement.

COMPENSATION COMMITTEE

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Compensation of Executive Officers

Summary Compensation for 2016

The compensation paid by the Company to named executive officers for the fiscal years ended December 31, 2016, 2015, and 2014 is summarized as follows:

Name and principal position (a)	Year (b)	Salary (c)	Bonus (d)	Stock awards (e)(2)(3)	Option awards (f)(2)(3)	Non-equity incentive plan compensation (g)(1)	Change in pension value and nonqualified deferred compensation earnings (h)	All other compensation (i)(4)	Total (j)
Guy Gecht,									
Chief Executive	2016	$620,000	$ —	$7,017,209	$ —	$ —	$ —	$5,300	$7,642,509
Officer	2015	620,000	—	5,959,188	—	—	—	5,200	6,584,388
	2014	620,000	—	5,999,416	—	266,114	—	5,200	6,890,730
Marc Olin,									
Chief Financial	2016	$310,000	$ —	$1,555,927	$ —	$ —	$ —	$5,300	$1,871,227
Officer	2015	310,000	—	2,212,146	—	—	—	2,583	2,524,729
	2014	311,553	—	2,263,741	—	88,705	—	2,350	2,666,349

(1) The annual incentive program for our named executive officers includes a "Target" opportunity and an "accelerator" opportunity that is payable if the target performance levels are exceeded. As described in the Compensation Discussion and Analysis above, both opportunities were granted in the form of RSUs for 2016 and 2015. For 2014, the Target bonus opportunity was granted as RSUs, and while the accelerator component was originally structured as a cash opportunity, the executives requested and the Compensation Committee approved the payment of the accelerator component in common stock. The portion of each opportunity granted as RSUs is reported in the "Stock Awards" column for each applicable year as described in footnotes (2) and (3) below (excluding the accelerator component for 2014, which was originally granted as a cash incentive award and is reflected in the "Non-equity incentive plan compensation" column of the table above.

(2) The amounts reported in the "Stock awards" column represent the aggregate grant date fair value, determined in accordance with ASC 718, of equity-based awards granted during the applicable year. See Note 12 of the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2016 regarding assumptions underlying the valuation of equity awards.

(3) The amounts reported in the "Stock awards" column of the table above include the aggregate grant date fair value of performance-based and market-based awards granted to the named executive officers in each of these years calculated based on the probable outcome of the applicable performance conditions determined as of the grant date in accordance with ASC 718. For the 2016 RSU awards excluding the "Target" RSU awards, the grant date fair value based on the probable outcome of the performance-based conditions applicable to the awards and the grant date fair value of these awards assuming that the highest level of performance conditions would be achieved were $4,752,271 and $5,567,281, respectively, for Mr. Gecht and $1,012,608 and $1,220,783, respectively for Mr. Olin. For the 2015 accelerator RSU awards, the grant date fair value based on the probable outcome of the performance-based conditions applicable to the awards and the grant date fair value of these awards assuming that the highest level of performance conditions would be achieved were $162,694 and $325,387, respectively, for Mr. Gecht and $54,231 and $108,462, respectively for Mr. Olin. For the 2014 awards, the grant date fair value was determined assuming that the highest performance level would be achieved.

(4) "All other compensation" consists of 401(k) employer matching contributions for each executive.

2016 Grants of Plan-Based Awards

Equity awards granted and estimated future payouts under incentive awards granted during the fiscal year ended December 31, 2016 to each of the Company's named executive officers were as follows:

Name and Grant Date	Grant Type	Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stock or Units (#)	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards ($/Share)	Grant Date Fair Value of Stock and Option Awards ($)(2)
		Threshold ($)	Target ($)	Maximum ($)	Threshold (#)	Target (#)	Maximum (#)				
Guy Gecht											
2/26/2016(1)(3)	Performance-based RSUs	$ —	$ —	$ —	$ —	8,586	8,586	—	—	—	$ 338,846
2/26/2016(1)(4)	Performance-based RSUs	—	—	—	—	8,586	8,586	—	—	—	338,846
2/26/2016(1)(5)	Performance-based RSUs	—	—	—	—	8,586	8,586	—	—	—	169,423
2/26/2016(1)(6)	Performance-based RSUs	—	—	—	—	8,586	8,586	—	—	—	169,423
2/26/2016(7)	Performance-based RSUs	—	—	—	—	3,242	3,242	—	—	—	127,946
8/25/2016(8)	Performance-based RSUs	—	—	—	20,450	40,900	61,349	—	—	—	2,571,321
8/25/2016(9)	Performance-based RSUs	—	—	—	13,633	27,266	40,898	—	—	—	1,714,158
8/25/2016(10)	Time-based RSUs	—	—	—	—	—	—	34,083	—	—	1,587,245
Marc Olin											
2/26/2016(1)(3)	Performance-based RSUs	—	—	—	—	2,862	2,862	—	—	—	112,949
2/26/2016(1)(4)	Performance-based RSUs	—	—	—	—	2,862	2,862	—	—	—	112,949
2/26/2016(1)(5)	Performance-based RSUs	—	—	—	—	2,862	2,862	—	—	—	56,474
2/26/2016(1)(6)	Performance-based RSUs	—	—	—	—	2,862	2,862	—	—	—	56,474
2/26/2016(7)	Performance-based RSUs	—	—	—	—	1,080	1,080	—	—	—	42,622
8/25/2016(8)	Performance-based RSUs	—	—	—	4,090	8,180	12,269	—	—	—	514,231
8/25/2016(9)	Performance-based RSUs	—	—	—	2,727	5,453	8,179	—	—	—	342,806
8/25/2016(10)	Time-based RSUs	—	—	—	—	—	—	6,816	—	—	317,421

(1) "Threshold," "Target," and "Maximum" columns in the "Estimated Future Payouts Under Equity Incentive Plan Awards" columns for awards granted in February 2016 represent amounts payable under our 2016 annual incentive program. Threshold achievement results in no bonus payout, while Target and Maximum achievement results in 100% bonus payout, with pro rata payouts for achievement between these Threshold and Target levels.

(2) Grant Date Fair Value of Stock Awards represents the fair value of the applicable award based on, in the case of performance-based and market-based awards, the probable outcome of the performance conditions applicable to the award determined as of the grant date in accordance with ASC 718. See Note 12 of the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2016 regarding assumptions underlying the valuation of equity awards.

(3) These "Target" RSUs vest based on achievement of 2016 revenue targets with pro rata vesting between the threshold performance level of $940 million (0% vesting) and the target performance lewvel of $ 1.0 billion (100% vesting).

(4) These "Target" RSUs vest based on achievement of 2016 non-GAAP operating income targets with pro rata vesting between the threshold performance level of $135 million (0% vesting) and the target performance level of $157 million (100% vesting). As described in more detail in the Compensation Discussion and Analysis, "non-GAAP operating income" is defined as operating income determined in accordance with GAAP, adjusted to remove the impact of certain expenses and gains, in each case consistent with the determination of non-GAAP operating income in our financial reporting. These adjustments are specified in the Unaudited Non-GAAP Financial Information section of our Annual Report on Form 10-K filed with the SEC for the year ended December 31, 2016.

(5) These "accelerator" RSUs vest based on achievement of 2016 revenue targets with pro rata vesting between the threshold performance level of $1.0 billion (0% vesting) and the target performance level of $ 1.05 billion (100% vesting).

(6) These "accelerator" RSUs vest based on achievement of 2016 non-GAAP operating income targets with pro rata vesting between the threshold performance level of $157 million (0% vesting) and the target performance level of $170 million (100% vesting).

(7) These RSUs vest based on achievement of 2016 cash from operations targets as a percentage of non-GAAP net income with pro rata vesting between the threshold performance level of 66% (0% vesting) and the target performance level of 90% (100% vesting). As described in more detail in the Compensation Discussion and Analysis, "non-GAAP net income" is defined as net income determined in accordance with GAAP, adjusted to remove the impact of certain expenses and gains, and the tax effect of these adjustments, in each case consistent with the determination of non-GAAP net income in our financial reporting. These adjustments are specified in the Unaudited Non-GAAP Financial Information section of our Annual Report on Form 10-K filed with the SEC for the year ended December 31, 2016. "Cash from operations" is defined as cash flows from operating activities as reported in our Annual Report on Form 10-K filed with the SEC for the year ended December 31, 2016.

(8) These RSUs will vest based on achievement of revenue growth targets during the three-year period comprised of our 2017, 2018 and 2019 fiscal years, with the vesting percentage subject to a modifier based on our revenue growth levels during that period relative to the revenue growth levels for the companies listed in the NASDAQ composite index with a market capitalization between $500 million and $5 billion. The vesting of the award will range from 0% to 150% of the target number of RSUs. In each case, 50% of the Target number of RSUs will vest at the Threshold level with pro rata vesting on a straight line basis up to the Target level and further vesting on a straight line basis up to the Maximum level shown in the table above.

(9) These RSUs will vest based on achievement of non-GAAP earnings per share growth targets during the three-year period comprised of the Company's 2017, 2018 and 2019 fiscal years, with the vesting percentage subject to a modifier based on our cash from operations growth levels (relative to the rate of growth of our non-GAAP operating income) during that period. The vesting of the award will range from 0% to 150% of the target number of RSUs. In each case, 50% of the Target number of RSUs will vest at the Threshold level with pro rata vesting on a straight line basis up to the Target level and further vesting on a straight line basis up to the Maximum level shown in the table above. As described in more detail in the Compensation Discussion and Analysis, "non-GAAP earnings per share" is defined as net income determined in accordance with GAAP, adjusted to remove the impact of certain expenses and gains, and the tax effect of these adjustments, divided by the weighted average number of common shares and dilutive potential common shares outstanding during the period as more fully defined in Note 2—Earnings Per Share of the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2016. These adjustments are specified in the Unaudited Non-GAAP Financial Information section of our Annual Reports on Form 10-K filed with the SEC for each applicable year. "Cash from operations" is defined as cash flows from operating activities as reported in our Annual Report on Form 10-K filed with the SEC for each applicable year. "Cash from operations" is defined as cash flows from operating activities as reported in our Annual Report on Form 10-K filed with the SEC for the year ended December 31, 2016.

(10) These RSUs vest with respect to one-third of the units on the first, second, and third anniversaries of the date of grant.

Description of Plan-Based Awards

Equity Incentive Plan Awards. Each of the equity incentive awards reported in the above table was granted under, and is subject to, the terms of the Company's 2009 Equity Incentive Award Plan (the "2009 Plan"). The 2009 Plan is administered by the Compensation Committee. The Compensation Committee has authority to interpret the plan provisions and make all required determinations under the 2009 Plan. Awards granted under the 2009 Plan are generally only transferable to a beneficiary of a named executive officer upon his death or, in certain cases, to family members for tax or estate planning purposes.

Under the terms of the 2009 Plan, if there is a change in control of the Company and the Compensation Committee does not provide for the substitution, assumption, exchange, or other continuation of the outstanding awards, each named executive officer's outstanding awards granted under the plan will generally become fully vested and, in the case of options, exercisable. Any options that become vested in connection with a change in control generally must be exercised prior to the change in control or they will be cancelled in exchange for the right to receive a cash payment in connection with the change in control transaction.

In addition, each named executive officer may be entitled to accelerated vesting of his outstanding equity-based awards upon certain terminations of employment with the Company and/or a change in control of the Company. The terms of this accelerated vesting are described in the "Potential Payments upon Termination or Change in Control" section below.

The vesting requirements applicable to each equity award granted to the named executive officers are described in the footnotes to the table above and in the Compensation Discussion and Analysis. RSUs are payable on vesting in an equal number of shares of the Company's common stock. The named executive officers do not have the right to vote or dispose of the RSUs and do not have any dividend rights with respect to the RSUs.

Outstanding Equity Awards at 2016 Fiscal Year-End

Certain information with respect to unexercised options and unvested stock awards granted to named executive officers as of December 31, 2016 is as follows:

		Option Awards					Stock Awards			
Name (a)	Grant Date	Number of securities underlying unexercised options (#) exercisable (b)	Number of securities underlying unexercised options (#) unexercisable (c)	Equity incentive plan awards: Number of securities underlying unexercised options (#) (d)	Option exercise price per share ($) (e)	Option expiration date (f)	Number of shares or units of stock that have not vested (#) (g)	Market value of shares or units of stock that have not vested ($) (h)	Equity incentive plan awards: number of unearned shares, units or other rights that have not vested (#) (i)	Equity incentive plan awards: market or payout value of unearned shares, units or other rights that have not vested ($) (j)
Guy Gecht	8/20/2010(2)	91,000	—	—	$11.40	8/20/2017	—	—	—	—
	8/15/2014(3)	—	—	—	—	—	15,127	$ 663,470	15,127	$ 663,470
	8/15/2014(1)	—	—	—	—	—	11,345	$ 497,592	—	—
	9/4/2015(4)	—	—	—	—	—	—	—	26,420	$1,158,781
	9/4/2015(1)	—	—	—	—	—	24,866	$1,090,623	—	—
	2/26/2016(7)	—	—	—	—	—	6,866	$ 301,143	—	—
	2/26/2016(8)	—	—	—	—	—	7,927	$ 347,678	—	—
	2/26/2016(9)	—	—	—	—	—	3,242	$ 142,194	—	—
	8/25/2016(10)	—	—	—	—	—	—	—	20,450	$ 896,937
	8/25/2016(11)	—	—	—	—	—	—	—	13,633	$ 597,943
	8/25/2016(1)	—	—	—	—	—	34,083	$1,494,880	—	—
Marc Olin	1/16/2014(5)	—	—	—	—	—	—	—	2,581	$ 113,203
	1/16/2014(1)	—	—	—	—	—	2,581	$ 113,203	—	—
	8/15/2014(3)	—	—	—	—	—	3,882	$ 170,265	3,883	$ 170,308
	8/15/2014(1)	—	—	—	—	—	1,941	$ 85,132	—	—
	4/23/2015(6)	—	—	—	—	—	—	—	5,988	$ 262,634
	4/23/2015(1)	—	—	—	—	—	3,992	$ 175,089	—	—
	9/4/2015(4)	—	—	—	—	—	—	—	4,529	$ 198,642
	9/4/2015(1)	—	—	—	—	—	4,262	$ 186,931	—	—
	2/26/2016(7)	—	—	—	—	—	2,288	$ 100,352	—	—
	2/26/2016(8)	—	—	—	—	—	2,642	$ 115,878	—	—
	2/26/2016(9)	—	—	—	—	—	1,080	$ 47,369	—	—
	8/25/2016(10)	—	—	—	—	—	—	—	4,090	$ 179,387
	8/25/2016(11)	—	—	—	—	—	—	—	2,726	$ 119,562
	8/25/2016(1)	—	—	—	—	—	6,816	$ 298,950	—	—

(1) One-third of the RSUs vest on the first, second, and third anniversary of the date of grant.

(2) Each option vests with respect to 25% of the shares subject thereto on the first anniversary of the date of grant and then at a rate of 2.5% of the total number of shares subject to the option per month over the next thirty months.

(3) The RSUs reported in columns (g) and (h) vest based on achievement of $1.0 billion in revenue and $145 million in non-GAAP operating income targets during any four consecutive quarters between the first quarter of 2014 and the fourth quarter of 2016. The Compensation Committee certified on February 9, 2017 that these RSUs vested based on actual 2016 revenue of $1.003 billion and 2016 non-GAAP operating income of $156 million (calculated as described in more detail in the Compensation Discussion and Analysis). The RSUs reported in columns (i) and (j) will vest upon achievement of $1.1 billion in revenue and $160 million in non-GAAP operating income during any four consecutive quarters between the first quarter of 2014 and the fourth quarter of 2017.

(4) These RSUs vest based on achievement of $1.1 billion in revenue during any four consecutive quarters between the first quarter of 2015 and the fourth quarter of 2017. An additional number of RSUs equal to this number of RSUs will vest upon achievement of $1.2 billion in revenue during any four consecutive quarters between the first quarter of 2015 and the fourth quarter of 2018. Vesting during any of the aforementioned four consecutive quarter periods is contingent on also achieving at least 5% revenue growth (excluding revenue related to acquisitions) compared to the preceding four consecutive quarters and at least 15% non-GAAP operating margin during the four consecutive quarters that the revenue goal is achieved.

(5) These RSUs will vest when the average closing stock price during 90 consecutive trading days equals or exceeds $53.00. An additional number of RSUs equal to this number of RSUs will vest when the average closing stock price over a period of 90 consecutive trading days equals or exceeds $60.00.

(6) These RSUs will vest when the average closing stock price during 90 consecutive trading days equals or exceeds $50.00. An additional number of RSUs equal to this number of RSUs will vest when the average closing stock price over a period of 90 consecutive trading

days equals or exceeds $56.00. An additional number of RSUs equal to this number of RSUs will vest when the average closing stock price over a period of 90 consecutive trading days equals or exceeds $62.00.

(7) These RSUs vest based on achievement of 2016 revenue targets with pro rata vesting between the threshold performance level of $940 million (0% vesting) and the target performance level of $ 1.0 billion (100% vesting). The Compensation Committee certified on February 9, 2017 that 80% of these RSUs vested on that date based on actual 2016 revenue of $ 988 million (calculated as described in more detail in the "Annual Incentive Program" section of the Compensation Discussion and Analysis).

(8) These RSUs vest based on achievement of 2016 non-GAAP operating income targets with pro rata vesting between the threshold performance level of $135 million (0% vesting) and the target performance level of $157 million (100% vesting). The Compensation Committee certified on February 9, 2017 that 92% of these RSUs vested on that date based on actual 2016 non-GAAP operating income of $155 million (calculated as described in more detail in the "Annual Incentive Program" section of the Compensation Discussion and Analysis. As described in more detail in the Compensation Discussion and Analysis, "non-GAAP operating income" is defined as operating income determined in accordance with GAAP, adjusted to remove the impact of certain expenses and gains, in each case consistent with the determination of non-GAAP operating income in our financial reporting. These adjustments are specified in the Unaudited Non-GAAP Financial Information section of our annual report on Form 10-K filed with the SEC for the year ended December 31, 2016.

(9) These RSUs vest based on achievement of 2016 cash from operations targets as a percentage of non-GAAP net income with pro rata vesting between the threshold performance level of 66% (0% vesting) and the target performance level of 90% (100% vesting). The Compensation Committee certified on February 9, 2017 that the actual 2016 cash from operations as percentage of non-GAAP net income was 97% (calculated as described in more detail in the "2016 Cash from Operations Performance Award" section of the Compensation Discussion and Analysis, resulting in 100% of the RSUs subject to the award vesting on that date. As described in more detail in the Compensation Discussion and Analysis, "non-GAAP net income" is defined as net income determined in accordance with GAAP, adjusted to remove the impact of certain expenses and gains, and the tax effect of these adjustments, in each case consistent with the determination of non-GAAP net income in our financial reporting. These adjustments are specified in the Unaudited Non-GAAP Financial Information section of our annual report on Form 10-K filed with the SEC for the year ended December 31, 2016. "Cash from operations" is defined as cash flows from operating activities as reported in our Annual Report on Form 10-K filed with the SEC for the year ended December 31, 2016.

(10) These RSUs will vest based on achievement of revenue growth targets during the three-year period comprised of our 2017, 2018 and 2019 fiscal years, with the vesting percentage subject to a modifier based on our revenue growth levels during that period relative to the revenue growth levels for the companies listed in the NASDAQ composite index with a market capitalization between $500 million and $5 billion. The vesting of the award will range from 0% to 150% of the target number of RSUs. The number of RSUs reflected in the table represents the number of RSUs that would be eligible to vest assuming the threshold performance level is achieved for each performance period. In each case, 50% of the Target number of RSUs will vest at the Threshold level with pro rata vesting on a straight line basis up to the Target level and further vesting on a straight line basis up to the Maximum level shown in the table above.

(11) These RSUs will vest based on achievement of non-GAAP earnings per share growth targets during the three-year period comprised of our 2017, 2018 and 2019 fiscal years, with the vesting percentage subject to a modifier based on our+ cash from operations growth levels (relative to the rate of growth of our non-GAAP operating income) during that period. The vesting of the award will range from 0% to 150% of the target number of RSUs. The number of RSUs reflected in the table represents the number of RSUs that would be eligible to vest assuming the threshold performance level is achieved for each performance period. In each case, 50% of the Target number of RSUs will vest at the Threshold level with pro rata vesting on a straight line basis up to the Target level and further vesting on a straight line basis up to the Maximum level shown in the table above. As described in more detail in the Compensation Discussion and Analysis, "non-GAAP earnings per share" is defined as net income determined in accordance with GAAP, adjusted to remove the impact of certain expenses and gains, and the tax effect of these adjustments, divided by the weighted average number of common shares and dilutive potential common shares outstanding during the period as more fully defined in Note 2—Earnings Per Share of the Notes to Consolidated Financial Statements of our Annual Report on Form 10-K for the year ended December 31, 2016. These adjustments are specified in the Unaudited Non-GAAP Financial Information section of our Annual Reports on Form 10-K filed with the SEC for the applicable year.

Option Exercises and Stock Vested in 2016

Options exercised and restricted stock awards vested by the named executive officers during the year ended December 31, 2016 were as follows:

	Option Awards		Stock Awards	
Name (a)	**Number of shares acquired on exercise (#)(b)**	**Value realized on exercise ($)(c)(1)**	**Number of shares acquired on vesting (#)(d)**	**Value realized on vesting ($)(e)(2)**
Guy Gecht	75,023	$2,498,026	93,664	$3,839,343
Marc Olin	—	—	23,757	963,391

(1) The dollar amounts shown in Column (c) for option awards are determined by multiplying (i) the number of shares to which the exercise of the option related by (ii) the difference between the closing per-share price of our common stock on the date of exercise and the exercise price of the options.

(2) The dollar amounts shown in Column (e) for stock awards are determined by multiplying the number of shares or units, as applicable, that vested by the closing per-share price of our common stock on the vesting date.

Pension Benefits

The Company does not provide pension benefits (other than under the Company's 401(k) plan) to its employees.

Nonqualified Deferred Compensation

The Company does not provide any nonqualified deferred compensation plans to its employees.

Employment Agreements

The Company has entered into employment agreements with each of its named executive officers. Mr. Gecht's agreement has a one-year term that automatically renews for additional one-year periods unless terminated by either party upon sixty days written notice prior to the expiration of the agreement. Mr. Olin's agreement has a three-year term through April 2018 that automatically renews for additional one-year periods thereafter unless terminated by either party upon sixty days written notice prior to the expiration of the agreement. Each named executive officer's employment with the Company is at-will and either party may terminate the employment relationship at any time for any reason with or without cause and with or without notice.

Each employment agreement provides, among other things, that:

- the named executive officer shall be provided with a base salary and will be eligible for incentive compensation under the annual management incentive compensation program as approved by the Compensation Committee;
- the named executive officer is eligible to receive stock options and other equity awards based on the named executive officer's performance;
- in the event that the Company terminates the named executive officer's employment without cause or the named executive officer voluntarily terminates his employment for good reason, the named executive officer is eligible for severance benefits consisting of cash severance for a specified number of months of base salary, pro-rata incentive award, (or, if the termination is in connection with a change in control, an incentive award assuming all performance goals are met in full), employer subsidized health benefit continuation under COBRA, and outplacement services, in each case as described below;
- if the named executive officer becomes entitled to receive severance and except as otherwise provided in the award document, the vesting of the named executive officer's outstanding and unvested stock options and other equity awards shall be either partially or fully accelerated, performance conditions waived, in certain circumstances, and the post-exercise period for stock options shall be extended, in each case as described below; and
- the named executive officer is subject to a non-solicitation covenant during his employment and for one year following termination of employment.

For more information on the severance provisions of these employment agreements, please see the severance tables and related footnotes in the section below.

Potential Payments upon Termination or Change of Control

Potential payments that may be made to the Company's named executive officers upon a termination of employment or a change of control, pursuant to their employment agreements or otherwise, are set forth below.

The amounts presented below are estimates determined assuming that the termination of employment and/or change in control triggering payment of these benefits occurred on the last business day of 2016, with benefits being valued using the closing sales price of the Company's common stock on such date ($43.86) and determined based on each executive's employment agreement in effect on December 31, 2016. Receipt of these benefits is subject to the execution of a separation agreement and full release of all claims by the named executive officer. The executive's actual benefits upon a termination or a change of control or may be different from those described below if such event were to occur on any other date or at any other price, or if any assumption is not factually correct.

Proxy

The table below sets forth potential payments to the Company's named executive officers as of December 31, 2016 upon termination without cause by the Company or upon termination for good reason by the named executive officer, in either case other than during the period of 24 months following a change of control as follows:

Name	Lump sum severance payment ($)(1)	Outplacement benefits ($)(2)	Continued health care coverage benefits ($)(3)	Value of accelerated vesting of stock options and restricted stock units ($)(4)	Total ($)
Guy Gecht	$1,888,821	$35,000	$33,138	$2,044,585	$4,001,544
Marc Olin	526,230	35,000	14,487	657,132	1,232,849

(1) The amounts shown are the lump sum severance payments that consist of 24 months of base salary for Mr. Gecht and 12 months of base salary for Mr. Olin, plus an amount equal to the value of the annual incentive awards (including the vesting of any equity awards granted under the annual incentive program) that the named executive officer would have earned for 2016 based upon the level of performance targets applicable to the annual incentive awards that was actually attained for 2016. If the named executive officer's employment is terminated during the year by the Company without cause or by the executive for good reason, the annual incentive awards are prorated for the portion of the year that the named executive officer was with the Company.

(2) Messrs. Gecht and Olin would each be entitled to outplacement services up to a maximum of $35,000.

(3) Messrs. Gecht and Olin would each be entitled to premium reimbursement for health insurance coverage under COBRA for Mr. Gecht for up to 18 months and for Mr. Olin for up to 12 months.

(4) Other than RSU awards related to the 2016 annual incentive program, which would be treated as described above in Note 1, Messrs. Gecht and Olin would be entitled to accelerated vesting of options and RSUs with respect to that number of shares that would otherwise have vested during the six month period following the termination date. For time-based options and RSUs that vest on an annual basis, credit is given as if the vesting accrued monthly. Performance awards that vest on any other basis will remain outstanding until the end of the applicable performance period and will vest based on the Company's actual performance for that period on a prorated basis (with the executive being given credit for up to six additional months of service for purposes of the pro-ration). The value of the accelerated options and RSUs is calculated based on the Company's closing stock price at December 30, 2016 of $43.86 per share, less the exercise price with respect to accelerated options. The number of stock options and RSUs subject to acceleration for each

named executive officer if a termination by the Company without cause or by the named executive officer for good reason had occurred on December 31, 2016, were as follows:

Name	Stock Options (#)	Restricted Stock Units (#)
Guy Gecht	—	46,616
Marc Olin	—	14,983

The table below sets forth potential payments to the Company's named executive officers upon termination without cause by the Company or upon termination for good reason by the named executive officers, in either case within 24 months following a change of control, as follows:

Name	Lump sum severance payment ($)(1)	Outplacement benefits ($)(2)	Continued health care coverage benefits ($)(3)	Value of accelerated vesting of stock options and restricted stock units ($)(4)	Total ($)
Guy Gecht	$3,366,328	$35,000	$33,138	$13,508,441	$16,942,907
Marc Olin	812,109	35,000	21,730	4,320,561	5,189,400

(1) The amounts shown are the lump sum severance payments that consist of 36 months of base salary for Mr. Gecht and 12 months of base salary for Mr. Olin, plus an amount equal to the value of the annual incentive awards (including the vesting of any equity awards granted under the annual incentive program) that the named executive officer would have earned for 2016 assuming that 100% of any performance targets applicable to the annual incentive awards were attained.

(2) Messrs. Gecht and Olin would each be entitled to outplacement services up to a maximum of $35,000.

(3) Messrs. Gecht and Olin would each be entitled to premium reimbursement for health insurance coverage under COBRA for up to 18 months.

(4) Messrs. Gecht and Olin would be entitled to accelerated vesting of 100% of all unvested options and RSUs as of their termination date with, in the case of performance awards, the applicable performance conditions being deemed met at maximum performance levels, excluding equity awards granted under the annual incentive program, which would be treated as described above in Note 1. The value of the accelerated options and RSUs is calculated based on the Company's closing stock price at December 30, 2016 of $43.86 per share, less the exercise price with respect to accelerated options. The number of stock options and RSUs subject to acceleration for each named executive officer if a termination by the Company without cause or by the named executive officer for good reason had occurred on December 31, 2016, assuming such termination was within 24 months after a change of control are as follows:

Name	Stock Options (#)	Restricted Stock Units (#)
Guy Gecht	—	307,990
Marc Olin	—	98,508

Compensation Risk Assessment

The Company does not believe that its compensation programs encourage unnecessary risk-taking that could have a material adverse effect on the Company as a whole. In 2016, the Compensation Committee, with the assistance of Mercer, reviewed the elements of (i) the Company's compensation programs and practices for all employees and (ii) of executive compensation for fiscal year 2016 to determine whether any portion of the program encouraged excessive risk taking. Following that review, the Compensation Committee does not believe that the Company's compensation programs and practices applicable to employees create risks that are reasonably likely to have a material adverse effect on the Company.

The Compensation Committee also believes that the mix and design of the elements of our executive compensation program do not encourage management to take excessive risks, based on the following factors:

- Compensation is allocated among base salaries, annual incentive awards, and long-term incentive awards. Base salaries are fixed to provide executives with a stable cash income, which allows them to focus on the Company's issues and objectives as a whole. Annual incentive awards and long-term incentive awards are designed to both reward the named executive officers for the Company's overall performance and align interests with those of our stockholders;
- Our annual incentive program is intended to balance risk and encourage our named executive officers to focus on specific short-term goals important to our success. While our annual incentive program is based on achievement of annual goals, and annual goals could encourage the taking of short-term risks at the expense of long-term results, our named executive officers' annual incentive awards are determined based on a combination of objective corporate performance criteria as described above. In addition, threshold and target levels of performance, payouts at multiple levels of performance, and evaluation of performance based on objective measures are intended to assist in mitigating excessive risk taking. Finally, the awards under our annual incentive program are subject to maximum payout levels;
- Awards to our named executive officers under our annual incentive compensation program for fiscal year 2016 were made in the form of performance-based RSU awards that help further align named executive officers' interests with those of our stockholders because the ultimate value of the awards is tied to the Company's stock price. The performance measures used to determine vesting and payment of awards to our named executive officers are Company-wide measures only, as opposed to measures linked to the performance of a particular business segment. Applying Company-wide performance measures is designed to encourage our named executive officers to make decisions that are in the best long-term interests of the Company and our stockholders;
- Awards to our named executive officers under our long-term incentive program in 2016 consisted of approximately two-thirds performance-based RSUs and approximately one-third time-based RSUs. The value of RSUs is tied directly to our stock price to help further align our executives' interests with those of our stockholders. As with the performance-based RSUs granted under our annual incentive program, the performance awards granted under our long-term incentive program vest based on the achievement of Company-wide performance measures in addition to continued employment requirements and are intended to both provide a retention incentive and enhance executives' focus on specific financial goals considered important to the Company's long-term growth. Because these time-based and performance-based awards will generally remain outstanding for a period of years, they help ensure that executives always have significant value tied to delivering long-term stockholder value; and
- As of April 24, 2017, each of our executive officers had satisfied our stock ownership requirements, which we believe helps to significantly align their interests with those of our stockholders.

AUDIT COMMITTEE REPORT

As more fully described in its Charter, the Audit Committee oversees the accounting and financial reporting processes of the Company, the audits of the financial statements of the Company and assists the Board of Directors in oversight and monitoring of the integrity of the Company's financial statements, the Company's compliance with legal and regulatory requirements, the independent auditor's qualifications, independence and performance, and the Company's systems of internal controls.

In the performance of its oversight function, the Audit Committee has reviewed the Company's audited financial statements for the fiscal year ended December 31, 2016, included in the Company's Annual Report on Form 10-K for that year.

The Audit Committee has reviewed and discussed these audited financial statements and overall financial reporting process, including the Company's system of internal controls, with management of the Company.

The Audit Committee has discussed with the Company's independent registered public accounting firm, Deloitte & Touche LLP ("Deloitte"), the matters required to be discussed by Statement on Auditing Standards 1301, Communications With Audit Committees, which includes, among other items, matters related to the conduct of the audit of the Company's financial statements.

The Audit Committee has received the written disclosures and the letter from Deloitte required by applicable requirements of the PCAOB regarding the independent accountant's communications with the Audit Committee concerning independence and has discussed with Deloitte the independence of Deloitte from the Company.

Based on the review and discussions referred to above in this Report, the Audit Committee recommended to the Company's Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016 for filing with the SEC.

AUDIT COMMITTEE

Eric Brown
Richard A. Kashnow
Thomas Georgens

NO INCORPORATION BY REFERENCE

In the Company's filings with the SEC, information is sometimes "incorporated by reference." This means that the Company is referring you to information that has previously been filed with the SEC and the information should be considered as part of the particular filing. As provided under SEC regulations, the "Audit Committee Report" and the "Compensation Committee Report" contained in this Proxy Statement specifically are not incorporated by reference into any other filings with the SEC and shall not be deemed to be "Soliciting Material." In addition, this Proxy Statement includes several website addresses. These website addresses are intended to provide inactive, textual references only. The information on these websites is not part of this Proxy Statement.

OTHER MATTERS

The Company knows of no other matters to be submitted at the meeting. If any other matters properly come before the meeting, it is the intention of the persons named in the enclosed form of proxy to vote the shares they represent as the Board of Directors may recommend.

By Order of the Board of Directors

/s/ ALEX GRAB

Alex Grab
Secretary

Dated: April 28, 2017

EXHIBIT A

ELECTRONICS FOR IMAGING, INC.
2017 EQUITY INCENTIVE PLAN

1. PURPOSE OF PLAN

The purpose of this Electronics For Imaging, Inc. 2017 Equity Incentive Plan (this "**Plan**") of Electronics For Imaging, Inc., a Delaware corporation (the "**Company**"), is to promote the success of the Company by providing an additional means through the grant of awards to attract, motivate, retain and reward selected employees and other eligible persons and to enhance the alignment of the interests of the selected participants with the interests of the Company's stockholders.

2. ELIGIBILITY

The Administrator (as such term is defined in Section 3.1) may grant awards under this Plan only to those persons that the Administrator determines to be Eligible Persons. An "**Eligible Person**" is any person who is either: (a) an officer (whether or not a director) or employee of the Company or one of its Subsidiaries; (b) a director of the Company or one of its Subsidiaries; or (c) an individual consultant or advisor who renders or has rendered bona fide services (other than services in connection with the offering or sale of securities of the Company or one of its Subsidiaries in a capital-raising transaction or as a market maker or promoter of securities of the Company or one of its Subsidiaries) to the Company or one of its Subsidiaries and who is selected to participate in this Plan by the Administrator; provided, however, that a person who is otherwise an Eligible Person under clause (c) above may participate in this Plan only if such participation would not adversely affect either the Company's eligibility to use Form S-8 to register under the Securities Act of 1933, as amended (the "**Securities Act**"), the offering and sale of shares issuable under this Plan by the Company or the Company's compliance with any other applicable laws. An Eligible Person who has been granted an award (a "participant") may, if otherwise eligible, be granted additional awards if the Administrator shall so determine. As used herein, "**Subsidiary**" means any corporation or other entity a majority of whose outstanding voting stock or voting power is beneficially owned directly or indirectly by the Company; and "**Board**" means the Board of Directors of the Company.

3. PLAN ADMINISTRATION

3.1 ***The Administrator***. This Plan shall be administered by and all awards under this Plan shall be authorized by the Administrator. The "**Administrator**" means the Board or one or more committees (or subcommittees, as the case may be) appointed by the Board or another committee (within its delegated authority) to administer all or certain aspects of this Plan. Any such committee shall be comprised solely of one or more directors or such number of directors as may be required under applicable law. A committee may delegate some or all of its authority to another committee so constituted. The Board or a committee comprised solely of directors may also delegate, to the extent permitted by Section 157(c) of the Delaware General Corporation Law and any other applicable law, to one or more officers of the Company, its authority under this Plan. The Board or another committee (within its delegated authority) may delegate different levels of authority to different committees or persons with administrative and grant authority under this Plan. Unless otherwise provided in the Bylaws of the Company or the applicable charter of any Administrator: (a) a majority of the members of the acting Administrator shall constitute a quorum, and (b) the vote of a majority of the members present assuming the presence of a quorum or the unanimous written consent of the members of the Administrator shall constitute action by the acting Administrator.

3.2 ***Powers of the Administrator***. Subject to the express provisions of this Plan, the Administrator is authorized and empowered to do all things necessary or desirable in connection with the authorization of awards and the administration of this Plan (in the case of a committee or delegation to one or more officers, within any express limits on the authority delegated to that committee or person(s)), including, without limitation, the authority to:

(a) determine eligibility and, from among those persons determined to be eligible, determine the particular Eligible Persons who will receive an award under this Plan;

(b) grant awards to Eligible Persons, determine the price (if any) at which securities will be offered or awarded and the number of securities to be offered or awarded to any of such persons (in the case of securities-based awards), determine the other specific terms and conditions of awards consistent with the express limits of this Plan, establish the installment(s) (if any) in which such awards shall become exercisable or shall vest (which may include, without limitation, performance and/or time-based schedules), or determine that no delayed exercisability or vesting is required, establish any applicable performance-based exercisability or vesting requirements, determine the extent (if any) to which any applicable exercise and vesting requirements have been satisfied, and establish the events (if any) of termination, expiration or reversion of such awards;

(c) approve the forms of any award agreements (which need not be identical either as to type of award or among participants);

(d) construe and interpret this Plan and any agreements defining the rights and obligations of the Company, its Subsidiaries, and participants under this Plan, make any and all determinations under this Plan and any such agreements, further define the terms used in this Plan, and prescribe, amend and rescind rules and regulations relating to the administration of this Plan or the awards granted under this Plan;

(e) cancel, modify, or waive the Company's rights with respect to, or modify, discontinue, suspend, or terminate any or all outstanding awards, subject to any required consent under Section 8.6.5;

(f) accelerate, waive or extend the vesting or exercisability, or modify or extend the term of, any or all such outstanding awards (in the case of options or stock appreciation rights, within the maximum ten-year term of such awards) in such circumstances as the Administrator may deem appropriate (including, without limitation, in connection with a termination of employment or services or other events of a personal nature) subject to any required consent under Section 8.6.5;

(g) adjust the number of shares of Common Stock subject to any award, adjust the price of any or all outstanding awards or otherwise waive or change previously imposed terms and conditions, in such circumstances as the Administrator may deem appropriate, in each case subject to Sections 4 and 8.6 (and subject to the no repricing provision below);

(h) determine the date of grant of an award, which may be a designated date after but not before the date of the Administrator's action to approve the award (unless otherwise designated by the Administrator, the date of grant of an award shall be the date upon which the Administrator took the action approving the award);

(i) determine whether, and the extent to which, adjustments are required pursuant to Section 7.1 hereof and take any other actions contemplated by Section 7 in connection with the occurrence of an event of the type described in Section 7;

(j) acquire or settle (subject to Sections 7 and 8.6) rights under awards in cash, stock of equivalent value, or other consideration (subject to the no repricing provision below); and

(k) determine the fair market value of the Common Stock or awards under this Plan from time to time and/or the manner in which such value will be determined.

3.3 ***Prohibition on Repricing***. Notwithstanding anything to the contrary in Section 3.2 and except for an adjustment pursuant to Section 7.1 or a repricing approved by stockholders, in no case may the Administrator (1) amend an outstanding stock option or SAR to reduce the exercise price or base price of the award, (2) cancel, exchange, or surrender an outstanding stock option or SAR in exchange for cash or other awards for the purpose of repricing the award, or (3) cancel, exchange, or surrender an outstanding stock option or SAR in exchange for an option or SAR with an exercise or base price that is less than the exercise or base price of the original award.

3.4 ***Minimum Vesting Requirement***. Notwithstanding the foregoing, and except as provided in the next sentence, all awards granted under this Plan shall be subject to a minimum vesting requirement of one year, and no portion of any such award may vest earlier than the first anniversary of the grant date of the award (the "**Minimum Vesting Requirement**"). The Minimum Vesting Requirement shall not apply to 5% of the total number of shares available under this Plan, and shall not limit or restrict the Administrator's discretion to accelerate the vesting of any award in circumstances it determines to be appropriate.

3.5 ***Binding Determinations***. Any determination or other action taken by, or inaction of, the Company, any Subsidiary, or the Administrator relating or pursuant to this Plan (or any award made under this Plan) and within its authority hereunder or under applicable law shall be within the absolute discretion of that entity or body and shall be conclusive and binding upon all persons. Neither the Board nor any Board committee, nor any member thereof or person acting at the direction thereof, shall be liable for any act, omission, interpretation, construction or determination made in good faith in connection with this Plan (or any award made under this Plan), and all such persons shall be entitled to indemnification and reimbursement by the Company in respect of any claim, loss, damage or expense (including, without limitation, attorneys' fees) arising or resulting therefrom to the fullest extent permitted by law and/or under any directors and officers liability insurance coverage that may be in effect from time to time. Neither the Board nor any other Administrator, nor any member thereof or person acting at the direction thereof, nor the Company or any of its Subsidiaries, shall be liable for any damages of a participant should an option intended as an ISO (as defined below) fail to meet the requirements of the Internal Revenue Code of 1986, as amended (the "**Code**"), applicable to ISOs, should any other award(s) fail to qualify for any intended tax treatment, should any award grant or other action with respect thereto not satisfy Rule 16b-3 promulgated under the Securities Exchange Act of 1934, as amended, or otherwise for any tax or other liability imposed on a participant with respect to an award.

3.6 ***Reliance on Experts***. In making any determination or in taking or not taking any action under this Plan, the Administrator may obtain and may rely upon the advice of experts, including employees and professional advisors to the Company. No director, officer or agent of the Company or any of its Subsidiaries shall be liable for any such action or determination taken or made or omitted in good faith.

3.7 ***Delegation***. The Administrator may delegate ministerial, non-discretionary functions to individuals who are officers or employees of the Company or any of its Subsidiaries or to third parties.

4. SHARES OF COMMON STOCK SUBJECT TO THE PLAN; SHARE LIMITS

4.1 ***Shares Available***. Subject to the provisions of Section 7.1, the capital stock that may be delivered under this Plan shall be shares of the Company's authorized but unissued Common Stock and any shares of its Common Stock held as treasury shares. For purposes of this Plan, "**Common Stock**" shall mean the common stock of the Company and such other securities or property as may become the subject of awards under this Plan, or may become subject to such awards, pursuant to an adjustment made under Section 7.1.

4.2 ***Aggregate Share Limit***. The maximum number of shares of Common Stock that may be delivered pursuant to awards granted to Eligible Persons under this Plan (the "**Share Limit**") is equal to the sum of the following:

(1) 1,200,000 shares of Common Stock, plus

(2) the number of shares of Common Stock available for additional award grant purposes under the Company's 2009 Equity Incentive Award Plan (the "2009 Plan") as of the date of stockholder approval of this Plan (the "Stockholder Approval Date") and determined immediately prior to the termination of the authority to grant new awards under the 2009 Plan as of the Stockholder Approval Date, plus

(3) the number of any shares subject to stock options granted under the 2009 Plan and outstanding on the Stockholder Approval Date which expire, or for any reason are cancelled or terminated, after the Stockholder Approval Date without being exercised, plus;

(4) the number of any shares subject to restricted stock unit awards granted under the 2009 Plan that are outstanding and unvested on the Stockholder Approval Date that are forfeited, terminated, cancelled or otherwise reacquired by the Company without having become vested.

provided that in no event shall the Share Limit exceed 4,904,367 shares (which is the sum of the 1,200,000 shares set forth above, plus the number of shares available under the 2009 Plan for additional award grant purposes as of the Effective Date (as such term is defined in Section 8.6.1), plus the aggregate number of shares subject to awards previously granted and outstanding under the 2009 Plan as of the Effective Date).

4.3 ***Additional Share Limits***. The following limits also apply with respect to awards granted under this Plan. These limits are in addition to, not in lieu of, the aggregate Share Limit in Section 4.2.

(a) The maximum number of shares of Common Stock that may be delivered pursuant to options qualified as incentive stock options granted under this Plan is 1,200,000 shares.

(b) The maximum number of shares of Common Stock subject to those options and stock appreciation rights that are granted under this Plan during any one calendar year to any one individual is 1,000,000 shares (provided that such limit shall be 2,000,000 shares during the individual's first calendar year of service with the Company and its Subsidiaries).

(c) Awards that are granted under this Plan during any one calendar year to any person who, on the grant date of the award, is a non-employee director are subject to the limits of this Section 4.3(c). The maximum number of shares of Common Stock subject to those awards that are granted under this Plan during any one calendar year to an individual who, on the grant date of the award, is a non-employee director is 9,750 shares; provided that this limit is 10,750 shares as to a non-employee director who is serving as the independent Chair of the Board or as a lead independent director at the time the applicable grant is made. For purposes of this Section 4.3(c), a "non-employee director" is an individual who, on the grant date of the award, is a member of the Board who is not then an officer or employee of the Company or one of its Subsidiaries. The limits of this Section 4.3(c) do not apply to, and shall be determined without taking into account, any award granted to an individual who, on the grant date of the award, is an officer or employee of the Company or one of its Subsidiaries. The limits of this Section 4.3(c) apply on an individual basis and not on an aggregate basis to all non-employee directors as a group.

(d) Additional limits with respect to Qualified Performance-Based Awards are set forth in Section 5.2.3.

4.4 ***Share-Limit Counting Rules***. The Share Limit shall be subject to the following provisions of this Section 4.4:

(a) Except as provided below in this Section 4.4, shares that are subject to or underlie awards granted under this Plan which expire or for any reason are cancelled or terminated, are forfeited, fail to vest, or for any other reason are not paid or delivered under this Plan shall not be counted against the Share Limit and shall be available for subsequent awards under this Plan.

(b) To the extent that shares of Common Stock are delivered pursuant to the exercise of a stock appreciation right granted under this Plan, the total number of shares to which the exercise relates (and not just the shares which are actually issued in payment of the award) shall be counted against the Share Limit. (For purposes of clarity, if a stock appreciation right relates to 100,000 shares and is exercised at a time when the payment due to the participant is 15,000 shares, 100,000 shares shall be counted against the Share Limit with respect to such exercise.)

(c) Shares that are exchanged by a participant or withheld by the Company as full or partial payment in connection with any award granted under this Plan, as well as any shares exchanged by a participant or withheld by the Company or one of its Subsidiaries to satisfy the tax withholding obligations related to any award granted under this Plan, shall be counted against the Share Limit and shall not be available for subsequent awards under this Plan.

(d) In addition, shares that are exchanged by a participant or withheld by the Company after the Stockholder Approval Date as full or partial payment in connection with any award granted under the 2009 Plan, as well as any shares exchanged by a participant or withheld by the Company or one of its Subsidiaries after the Stockholder Approval Date to satisfy the tax withholding obligations related to any award granted under the 2009 Plan, shall not be available for new awards under this Plan.

(e) To the extent that an award granted under this Plan is settled in cash or a form other than shares of Common Stock, the shares that would have been delivered had there been no such cash or other settlement shall not be counted against the Share Limit and shall be available for subsequent awards under this Plan.

(f) In the event that shares of Common Stock are delivered in respect of a dividend equivalent right granted under this Plan, the number of shares delivered with respect to the award shall be counted against the Share Limit. (For purposes of clarity, if 1,000 dividend equivalent rights are granted and outstanding when the Company pays a dividend, and 50 shares are delivered in payment of those rights with respect to that dividend, 50 shares shall be counted against the Share Limit). Except as otherwise provided by the Administrator, shares delivered in respect of dividend equivalent rights shall not count against any individual award limit under this Plan other than the aggregate Share Limit.

Refer to Section 8.10 for application of the share limits of this Plan, including the limits in Sections 4.2 and 4.3, with respect to assumed awards. Each of the numerical limits and references in Sections 4.2 and 4.3, and in this Section 4.4, is subject to adjustment as contemplated by Section 4.3, Section 7 and Section 8.10. The foregoing adjustments to the share limits of this Plan are subject to any applicable limitations under Section 162(m) of the Code with respect to awards intended as performance-based compensation thereunder.

4.5 ***No Fractional Shares; Minimum Issue***. Unless otherwise expressly provided by the Administrator, no fractional shares shall be delivered under this Plan. The Administrator may pay cash in lieu of any fractional shares in settlements of awards under this Plan. The Administrator may from time to time impose a limit (of not greater than 100 shares) on the minimum number of shares that may be purchased or exercised as to awards (or any particular award) granted under this Plan unless (as to any particular award) the total number purchased or exercised is the total number at the time available for purchase or exercise under the award.

5. AWARDS

5.1 ***Type and Form of Awards***. The Administrator shall determine the type or types of award(s) to be made to each selected Eligible Person. Awards may be granted singly, in combination or in tandem. Awards also may be made in combination or in tandem with, in replacement of, as alternatives to, or as the payment form for grants or rights under any other employee or compensation plan of the Company or one of its Subsidiaries. The types of awards that may be granted under this Plan are:

5.1.1 ***Stock Options.*** A stock option is the grant of a right to purchase a specified number of shares of Common Stock during a specified period as determined by the Administrator. An option may be intended as an incentive stock option within the meaning of Section 422 of the Code (an "**ISO**") or a nonqualified stock option (an option not intended to be an ISO). The agreement evidencing the grant of an option will indicate if the option is intended as an ISO; otherwise it will be deemed to be a nonqualified stock option. The maximum term of each option (ISO or nonqualified) shall be ten (10) years. The per share exercise price for each option shall be not less than 100% of the fair market value of a share of Common Stock on the date of grant of the option. When an option is exercised, the exercise price for the shares to be purchased shall be paid in full in cash or such other method permitted by the Administrator consistent with Section 5.5.

5.1.2 ***Additional Rules Applicable to ISOs.*** To the extent that the aggregate fair market value (determined at the time of grant of the applicable option) of stock with respect to which ISOs first become exercisable by a participant in any calendar year exceeds $100,000, taking into account both Common Stock subject to ISOs under this Plan and stock subject to ISOs under all other plans of the Company or one of its Subsidiaries (or any parent or predecessor corporation to the extent required by and within the meaning of Section 422 of the Code and the regulations promulgated thereunder), such options shall be treated as nonqualified stock options. In reducing the number of options treated as ISOs to meet the $100,000 limit, the most recently granted options shall be reduced first. To the extent a reduction of simultaneously granted options is necessary to meet the $100,000 limit, the Administrator may, in the manner and to the extent permitted by law, designate which shares of Common Stock are to be treated as shares acquired pursuant to the exercise of an ISO. ISOs may only be granted to employees of the Company or one of its subsidiaries (for this purpose, the term "subsidiary" is used as defined in Section 424(f) of the Code, which generally requires an unbroken chain of ownership of at least 50% of the total combined voting power of all classes of stock of each subsidiary in the chain beginning with the Company and ending with the subsidiary in question). No ISO may be granted to any person who, at the time the option is granted, owns (or is deemed to own under Section 424(d) of the Code) shares of outstanding Common Stock possessing more than 10% of the total combined voting power of all classes of stock of the Company, unless the exercise price of such option is at least 110% of the fair market value of the stock subject to the option and such option by its terms is not exercisable after the expiration of five years from the date such option is granted. If an otherwise-intended ISO fails to meet the applicable requirements of Section 422 of the Code, the option shall be a nonqualified stock option.

5.1.3 ***Stock Appreciation Rights.*** A stock appreciation right or "**SAR**" is a right to receive a payment, in cash and/or Common Stock, equal to the excess of the fair market value of a specified number of shares of Common Stock on the date the SAR is exercised over the "**base price**" of the award, which base price shall be set forth in the applicable award agreement and shall be not less than 100% of the fair market value of a share of Common Stock on the date of grant of the SAR. The maximum term of a SAR shall be ten (10) years.

5.1.4 ***Other Awards; Dividend Equivalent Rights.*** The other types of awards that may be granted under this Plan include: (a) stock bonuses, restricted stock, performance stock, stock units, phantom stock or similar rights to purchase or acquire shares, whether at a fixed or variable price (or no price) or fixed or variable ratio related to the Common Stock, and, subject to the Minimum Vesting Requirement, any of which may (but need not) be fully vested at grant or vest upon the passage of time, the occurrence of one or more events, the satisfaction of performance criteria or other conditions, or any combination thereof; or (b) cash awards. Dividend equivalent rights may be granted as a separate award or in connection with another award under this Plan; provided, however, that dividend equivalent rights may not be granted as to a stock option or SAR granted under this Plan. In addition, any dividends and/or dividend equivalents as to the portion of an award that is subject to unsatisfied vesting requirements will be subject to termination and forfeiture to the same extent as the corresponding portion of the award to which they relate in the event the applicable vesting requirements are not satisfied.

5.2 ***Section 162(m) Performance-Based Awards*****.** Without limiting the generality of the foregoing, any of the types of awards listed in Section 5.1.4 above may be, and options and SARs granted to officers and employees also may be, granted as awards intended to satisfy the requirements for "performance-based compensation" within the meaning of Section 162(m) of the Code. An Award (other than an option or SAR) intended by the Administrator to satisfy the requirements for "performance-based compensation" within the meaning of Section 162(m) of the Code is referred to as a "**Qualified Performance-Based Award**." An option or SAR intended to satisfy the requirements for "performance-based compensation" within the meaning of Section 162(m) of the Code is referred to as a "**Qualifying Option or SAR**." The grant, vesting, exercisability or payment of Qualified Performance-Based Awards may depend on the degree of achievement of one or more performance goals relative to a pre-established targeted level or levels using one or more of the Business Criteria set forth below (on an absolute or relative (including, without limitation, relative to the performance of one or more other companies or upon comparisons of any of the indicators of performance relative to one or more other companies) basis, any of which may also be expressed as a growth or decline measure relative to an amount or performance for a prior date or period) for the Company on a consolidated basis or for one or more of the Company's subsidiaries, segments, divisions or business units, or any combination of the foregoing. Any Qualified Performance-Based Award shall be subject to the following provisions of this Section 5.2, and a Qualifying Option or SAR shall be subject to the following provisions of this Section 5.2 only to the extent expressly set forth below. Nothing in this Plan, however, requires the Administrator to qualify any award or compensation as "performance-based compensation" under Section 162(m) of the Code.

5.2.1 ***Class; Administrator*****.** The eligible class of persons for Qualified Performance-Based Awards under this Section 5.2, as well as for a Qualifying Option or SAR, shall be officers and employees of the Company or one of its Subsidiaries. To qualify awards as performance-based under Section 162(m), the Administrator approving Qualified Performance-Based Awards or a Qualifying Option or SAR, or making any certification required pursuant to Section 5.2.4, must constitute a committee consisting solely of two or more outside directors (as this requirement is applied under Section 162(m) of the Code).

5.2.2 Performance Goals**.**

(a) The specific performance goals for Qualified Performance-Based Awards shall be established based on one or more of the following business criteria ("**Business Criteria**") as selected by the Administrator in its sole discretion: [net earnings (either before or after interest, taxes, depreciation and amortization), economic value-added, sales or revenue, net income (either before or after taxes), operating earnings, operating income, cash flow (including, but not limited to, operating cash flow and free cash flow), cash flow return on capital, return on net assets, return on stockholders' equity, return on assets, return on capital, stockholder returns, return on sales, gross or net profit margin, productivity, expense, margins, operating efficiency, customer satisfaction, working capital, earnings per share, price per share, market share] or any combination thereof. The applicable performance measurement period may not be less than three months nor more than 10 years.

(b) The terms of the Qualified Performance-Based Awards may specify the manner, if any, in which performance targets (or the applicable measure of performance) shall be adjusted: to mitigate the unbudgeted impact of material, unusual or nonrecurring gains and losses; to exclude restructuring and/or other nonrecurring charges; to exclude the effects of financing activities; to exclude exchange rate effects; to exclude the effects of changes to accounting principles; to exclude the effects of any statutory adjustments to corporate tax rates; to exclude the effects of any items of an unusual nature or of infrequency of occurrence; to exclude the effects of acquisitions or joint ventures; to exclude the effects of discontinued operations; to assume that any business divested achieved performance objectives at targeted levels during the balance of a performance period following such divestiture or to exclude the effects of any divestiture; to exclude the effect of any event or transaction referenced in Section 7.1; to exclude the effects of stock-based compensation; to exclude the award of bonuses; to exclude amortization of acquired intangible assets; to exclude the goodwill and intangible asset impairment charges; to exclude the effect of any other unusual, non-recurring gain or loss, non-operating item or other extraordinary item; to exclude the costs associated with any of the foregoing or any potential transaction that if consummated would constitute any of the foregoing; or to exclude other items specified by the Administrator at the time of establishing the targets.

(c) To qualify awards as performance-based under Section 162(m), the applicable Business Criterion (or Business Criteria, as the case may be) and specific performance formula, goal or goals ("targets") must be established and approved by the Administrator during the first 90 days of the performance period (and, in the case of performance periods of less than one year, in no event after 25% or more of the performance period has elapsed) and while performance relating to such target(s) remains substantially uncertain within the meaning of Section 162(m) of the Code.

5.2.3 Form of Payment; Maximum Qualified Performance-Based Award. Grants or awards under this Section 5.2 may be paid in cash or shares of Common Stock or any combination thereof. Qualifying Option or SAR awards granted to any one participant in any one calendar year shall be subject to the limit set forth in Section 4.3(b). A Qualified Performance-Based Award shall be subject to the following applicable limit: (a) in the case of a Qualified Performance-Based Award where the value of the Award is expressed as a number or range of number of shares of Common Stock (such as, without limitation, a Qualified Performance-Based Award in the form of a restricted stock, performance stock, or stock unit award) or a Qualified Performance-Based Award where the amount of cash payable upon or following vesting of the award is determined with reference to the fair market value of a share of Common Stock at such time, the maximum number of shares of Common Stock which may be subject to such Qualified Performance-Based Awards described in this clause (a) that are granted to any one individual in any one calendar year shall not exceed 1,000,000 shares (provided that such limit shall be 2,000,000 shares during the individual's first calendar year of service with the Company and its Subsidiaries), either individually or in the aggregate, subject to adjustment as provided in Section 7.1; and (b) in the case of other Qualified Performance-Based Awards (such as a Qualified Performance-Based Award where the potential payment is a stated cash amount or range of stated cash amounts, whether the payment is ultimately made in cash or Common Stock by converting the applicable cash amount into a number of shares of Common Stock based on the fair market value of a share of Common Stock upon or following vesting of the award), the aggregate amount of compensation to be paid to any one participant in respect of all such Qualified Performance-Based Awards granted to that participant in any one calendar year shall not exceed $5,000,000. The limits in clauses (a) and (b) in the preceding sentence are separate, independent limits, and a Qualified Performance-Based Award shall be subject to the applicable limit but not both limits. For clarity, an eligible individual may receive, during any applicable year, awards referenced in clause (a) of this Section 5.2.3 not in excess of the limit of that clause, awards referenced in clause (b) of this Section 5.2.3 not in excess of the limit of that clause, Qualifying Option or SAR awards not in excess of the limit set forth in Section 4.3(b), as well as other types of awards (not referenced in this Section 5.2.3) under this Plan. Awards that are cancelled during the year shall be counted against any applicable limits of Section 4.3(b) and this Section 5.2.3 to the extent required by Section 162(m) of the Code.

5.2.4 *Certification of Payment*. Before any Qualified Performance-Based Award is paid and to the extent applicable to qualify the award as performance-based compensation within the meaning of

Section 162(m) of the Code, the Administrator must certify in writing that the performance target(s) and any other material terms of the Qualified Performance-Based Award were in fact timely satisfied.

5.2.5 ***Reservation of Discretion*****.** The Administrator will have the discretion to determine the restrictions or other limitations of the individual awards granted under this Section 5.2 including the authority to reduce awards, payouts or vesting or to pay no awards, in its sole discretion, if the Administrator preserves such authority at the time of grant by language to this effect in its authorizing resolutions or otherwise.

5.2.6 ***Expiration of Grant Authority*****.** As required pursuant to Section 162(m) of the Code and the regulations promulgated thereunder, the Administrator's authority to grant new awards that are intended to qualify as performance-based compensation within the meaning of Section 162(m) of the Code (other than a Qualifying Option or SAR) shall terminate upon the first meeting of the Company's stockholders that occurs in the fifth year following the year in which the Company's stockholders first approve this Plan, subject to any subsequent extension that may be approved by stockholders.

5.3 ***Award Agreements***. Each award shall be evidenced by a written or electronic award agreement or notice in a form approved by the Administrator (an "award agreement"), and, in each case and if required by the Administrator, executed or otherwise electronically accepted by the recipient of the award in such form and manner as the Administrator may require.

5.4 ***Deferrals and Settlements***. Payment of awards may be in the form of cash, Common Stock, other awards or combinations thereof as the Administrator shall determine, and with such restrictions (if any) as it may impose. The Administrator may also require or permit participants to elect to defer the issuance of shares or the settlement of awards in cash under such rules and procedures as it may establish under this Plan. The Administrator may also provide that deferred settlements include the payment or crediting of interest or other earnings on the deferral amounts, or the payment or crediting of dividend equivalents where the deferred amounts are denominated in shares.

5.5 ***Consideration for Common Stock or Awards***. The purchase price (if any) for any award granted under this Plan or the Common Stock to be delivered pursuant to an award, as applicable, may be paid by means of any lawful consideration as determined by the Administrator, including, without limitation, one or a combination of the following methods:

(a) services rendered by the recipient of such award;

(b) cash, check payable to the order of the Company, or electronic funds transfer;

(c) notice and third party payment in such manner as may be authorized by the Administrator;

(d) the delivery of previously owned shares of Common Stock;

(e) by a reduction in the number of shares otherwise deliverable pursuant to the award; or

(f) subject to such procedures as the Administrator may adopt, pursuant to a "cashless exercise" with a third party who provides financing for the purposes of (or who otherwise facilitates) the purchase or exercise of awards.

In no event shall any shares newly-issued by the Company be issued for less than the minimum lawful consideration for such shares or for consideration other than consideration permitted by applicable state law. Shares of Common Stock used to satisfy the exercise price of an option shall be valued at their fair market value. The Company will not be obligated to deliver any shares unless and until it receives full payment of the exercise or purchase price therefor and any related withholding obligations under Section 8.5 and any other conditions to exercise or purchase have been satisfied. Unless otherwise expressly provided in the applicable award agreement, the Administrator may at any time eliminate or limit a participant's ability to pay any purchase or exercise price of any award or shares by any method other than cash payment to the Company.

5.6 ***Definition of Fair Market Value***. For purposes of this Plan, “fair market value” shall mean, unless otherwise determined or provided by the Administrator in the circumstances, the closing price (in regular trading) for a share of Common Stock on the NASDAQ Stock Market (the “**Market**”) for the date in question or, if no sales of Common Stock were reported on the Market on that date, the closing price (in regular trading) for a share of Common Stock on the Market for the next preceding day on which sales of Common Stock were reported on the Market. The Administrator may, however, provide with respect to one or more awards that the fair market value shall equal the closing price (in regular trading) for a share of Common Stock on the Market on the last trading day preceding the date in question or the average of the high and low trading prices of a share of Common Stock on the Market for the date in question or the most recent trading day. If the Common Stock is no longer listed or is no longer actively traded on the Market as of the applicable date, the fair market value of the Common Stock shall be the value as reasonably determined by the Administrator for purposes of the award in the circumstances. The Administrator also may adopt a different methodology for determining fair market value with respect to one or more awards if a different methodology is necessary or advisable to secure any intended favorable tax, legal or other treatment for the particular award(s) (for example, and without limitation, the Administrator may provide that fair market value for purposes of one or more awards will be based on an average of closing prices (or the average of high and low daily trading prices) for a specified period preceding the relevant date).

5.7 ***Transfer Restrictions***.

5.7.1 ***Limitations on Exercise and Transfer.*** Unless otherwise expressly provided in (or pursuant to) this Section 5.7 or required by applicable law: (a) all awards are non-transferable and shall not be subject in any manner to sale, transfer, anticipation, alienation, assignment, pledge, encumbrance or charge; (b) awards shall be exercised only by the participant; and (c) amounts payable or shares issuable pursuant to any award shall be delivered only to (or for the account of) the participant.

5.7.2 ***Exceptions.*** The Administrator may permit awards to be exercised by and paid to, or otherwise transferred to, other persons or entities pursuant to such conditions and procedures, including limitations on subsequent transfers, as the Administrator may, in its sole discretion, establish in writing. Any permitted transfer shall be subject to compliance with applicable federal and state securities laws and shall not be for value (other than nominal consideration, settlement of marital property rights, or for interests in an entity in which more than 50% of the voting interests are held by the Eligible Person or by the Eligible Person’s family members).

5.7.3 ***Further Exceptions to Limits on Transfer.*** The exercise and transfer restrictions in Section 5.7.1 shall not apply to:

(a) transfers to the Company (for example, in connection with the expiration or termination of the award),

(b) the designation of a beneficiary to receive benefits in the event of the participant’s death or, if the participant has died, transfers to or exercise by the participant’s beneficiary, or, in the absence of a validly designated beneficiary, transfers by will or the laws of descent and distribution,

(c) subject to any applicable limitations on ISOs, transfers to a family member (or former family member) pursuant to a domestic relations order if received by the Administrator,

(d) if the participant has suffered a disability, permitted transfers or exercises on behalf of the participant by his or her legal representative, or

(e) the authorization by the Administrator of “cashless exercise” procedures with third parties who provide financing for the purpose of (or who otherwise facilitate) the exercise of awards consistent with applicable laws and any limitations imposed by the Administrator.

5.8 ***International Awards***. One or more awards may be granted to Eligible Persons who provide services to the Company or one of its Subsidiaries outside of the United States. Any awards granted to such persons may be granted pursuant to the terms and conditions of any applicable sub-plans, if any, appended to this Plan and approved by the Administrator from time to time. The awards so granted need not comply with other specific terms of this Plan, provided that stockholder approval of any deviation from the specific terms of this Plan is not required by applicable law or any applicable listing agency.

6. EFFECT OF TERMINATION OF EMPLOYMENT OR SERVICE ON AWARDS

6.1 ***General***. The Administrator shall establish the effect (if any) of a termination of employment or service on the rights and benefits under each award under this Plan and in so doing may make distinctions based upon, inter alia, the cause of termination and type of award. If the participant is not an employee of the Company or one of its Subsidiaries, is not a member of the Board, and provides other services to the Company or one of its Subsidiaries, the Administrator shall be the sole judge for purposes of this Plan (unless a contract or the award otherwise provides) of whether the participant continues to render services to the Company or one of its Subsidiaries and the date, if any, upon which such services shall be deemed to have terminated.

6.2 ***Events Not Deemed Terminations of Employment***. Unless the express policy of the Company or one of its Subsidiaries, or the Administrator, otherwise provides, or except as otherwise required by applicable law, the employment relationship shall not be considered terminated in the case of (a) sick leave, (b) military leave, or (c) any other leave of absence authorized by the Company or one of its Subsidiaries, or the Administrator; provided that, unless reemployment upon the expiration of such leave is guaranteed by contract or law or the Administrator otherwise provides, such leave is for a period of not more than three months. In the case of any employee of the Company or one of its Subsidiaries on an approved leave of absence, continued vesting of the award while on leave from the employ of the Company or one of its Subsidiaries may be suspended until the employee returns to service, unless the Administrator otherwise provides or applicable law otherwise requires. In no event shall an award be exercised after the expiration of any applicable maximum term of the award.

6.3 ***Effect of Change of Subsidiary Status***. For purposes of this Plan and any award, if an entity ceases to be a Subsidiary of the Company a termination of employment or service shall be deemed to have occurred with respect to each Eligible Person in respect of such Subsidiary who does not continue as an Eligible Person in respect of the Company or another Subsidiary that continues as such after giving effect to the transaction or other event giving rise to the change in status unless the Subsidiary that is sold, spun-off or otherwise divested (or its successor or a direct or indirect parent of such Subsidiary or successor) assumes the Eligible Person's award(s) in connection with such transaction.

7. ADJUSTMENTS; ACCELERATION

7.1 ***Adjustments***.

(a) Subject to Section 7.2, upon (or, as may be necessary to effect the adjustment, immediately prior to): any reclassification, recapitalization, stock split (including a stock split in the form of a stock dividend) or reverse stock split; any merger, combination, consolidation, conversion or other reorganization; any spin-off, split-up, or similar extraordinary dividend distribution in respect of the Common Stock; or any exchange of Common Stock or other securities of the Company, or any similar, unusual or extraordinary corporate transaction in respect of the Common Stock; then the Administrator shall equitably and proportionately adjust (1) the number and type of shares of Common Stock (or other securities) that thereafter may be made the subject of awards (including the specific share limits, maximums and numbers of shares set forth elsewhere in this Plan), (2) the number, amount and type of shares of Common Stock (or other securities or property) subject to any outstanding awards, (3) the grant, purchase, or exercise price (which term includes the base price of any SAR or similar right) of any outstanding awards, and/or (4) the securities, cash or other property deliverable upon exercise or payment of any outstanding awards, in each case to the extent necessary to preserve (but not increase) the level of incentives intended by this Plan and the then-outstanding awards.

(b) Unless otherwise expressly provided in the applicable award agreement, upon (or, as may be necessary to effect the adjustment, immediately prior to) any event or transaction described in the preceding paragraph or a sale of all or substantially all of the business or assets of the Company as an entirety, the Administrator shall equitably and proportionately adjust the performance standards and/or period applicable to any then-outstanding performance-based awards to the extent necessary to preserve (but not increase) the level of incentives intended by this Plan and the then-outstanding performance-based awards.

(c) It is intended that, if possible, any adjustments contemplated by the preceding two paragraphs be made in a manner that satisfies applicable U.S. legal, tax (including, without limitation and as applicable in the circumstances, Section 424 of the Code as to ISOs, Section 409A of the Code as to awards intended to comply therewith and not be subject to taxation thereunder, and Section 162(m) of the Code as to any Qualifying Option or SAR and any Qualified Performance-Based Award) and accounting (so as to not trigger any unintended charge to earnings with respect to such adjustment) requirements.

(d) Without limiting the generality of Section 3.5, any good faith determination by the Administrator as to whether an adjustment is required in the circumstances pursuant to this Section 7.1, and the extent and nature of any such adjustment, shall be conclusive and binding on all persons.

7.2 Corporate Transactions—Assumption and Termination of Awards.

(a) Upon any event in which the Company does not survive, or does not survive as a public company in respect of its Common Stock (including, without limitation, a dissolution, merger, combination, consolidation, conversion, exchange of securities, or other reorganization, or a sale of all or substantially all of the business, stock or assets of the Company, in any case in connection with which the Company does not survive or does not survive as a public company in respect of its Common Stock), then the Administrator may make provision for a cash payment in settlement of, or for the termination, assumption, substitution or exchange of any or all outstanding awards or the cash, securities or property deliverable to the holder of any or all outstanding awards, based upon, to the extent relevant under the circumstances, the distribution or consideration payable to holders of the Common Stock upon or in respect of such event. Upon the occurrence of any event described in the preceding sentence in connection with which the Administrator has made provision for the award to be terminated (and the Administrator has not made a provision for the substitution, assumption, exchange or other continuation or settlement of the award): (1) unless otherwise provided in the applicable award agreement, each then-outstanding option and SAR shall become fully vested, all shares of restricted stock then outstanding shall fully vest free of restrictions, and each other award granted under this Plan that is then outstanding shall become payable to the holder of such award (with any performance goals applicable to the award in each case being deemed met, unless otherwise provided in the award agreement, at the "target" performance level); and (2) each award shall terminate upon the related event; provided that the holder of an option or SAR shall be given reasonable advance notice of the impending termination and a reasonable opportunity to exercise his or her outstanding vested options and SARs (after giving effect to any accelerated vesting required in the circumstances) in accordance with their terms before the termination of such awards (except that in no case shall more than ten days' notice of the impending termination be required and any acceleration of vesting and any exercise of any portion of an award that is so accelerated may be made contingent upon the actual occurrence of the event).

(b) Without limiting the preceding paragraph, in connection with any event referred to in the preceding paragraph or any change in control event defined in any applicable award agreement, the Administrator may, in its discretion, provide for the accelerated vesting of any award or awards as and to the extent determined by the Administrator in the circumstances.

(c) For purposes of this Section 7.2, an award shall be deemed to have been "assumed" if (without limiting other circumstances in which an award is assumed) the award continues after an event referred to above in this Section 7.2, and/or is assumed and continued by the surviving entity following such event (including, without limitation, an entity that, as a result of such event, owns the Company or all or substantially all of the Company's assets directly or through one or more subsidiaries (a "Parent")), and confers the right to purchase or receive, as applicable and subject to vesting and the other terms and conditions of the award, for each share of Common Stock subject to the award immediately prior to the event, the consideration (whether cash, shares, or other securities or property) received in the event by the stockholders of the Company for each share of Common Stock sold or exchanged in such event (or the consideration received by a majority of the stockholders participating in such event if the stockholders were offered a choice of consideration); provided, however, that if the consideration offered for a share of Common Stock in the event is not solely the ordinary common stock of a successor corporation or a Parent, the Administrator may provide for the consideration to be received upon exercise or payment of the award, for each share subject to the award, to be solely ordinary common stock of the successor corporation or a Parent equal in fair market value to the per share consideration received by the stockholders participating in the event.

(d) The Administrator may adopt such valuation methodologies for outstanding awards as it deems reasonable in the event of a cash or property settlement and, in the case of options, SARs or similar rights, but without limitation on other methodologies, may base such settlement solely upon the excess if any of the per share amount payable upon or in respect of such event over the exercise or base price of the award. In the case of an option, SAR or similar right as to which the per share amount payable upon or in respect of such event is less than or equal to the exercise or base price of the award, the Administrator may terminate such award in connection with an event referred to in this Section 7.2 without any payment in respect of such award.

(e) In any of the events referred to in this Section 7.2, the Administrator may take such action contemplated by this Section 7.2 prior to such event (as opposed to on the occurrence of such event) to the extent that the Administrator deems the action necessary to permit the participant to realize the benefits intended to be conveyed with respect to the underlying shares. Without limiting the generality of the foregoing, the Administrator may deem an acceleration and/or termination to occur immediately prior to the applicable event and, in such circumstances, will reinstate the original terms of the award if an event giving rise to an acceleration and/or termination does not occur.

(f) Without limiting the generality of Section 3.5, any good faith determination by the Administrator pursuant to its authority under this Section 7.2 shall be conclusive and binding on all persons.

(g) The Administrator may override the provisions of this Section 7.2 by express provision in the award agreement and may accord any Eligible Person a right to refuse any acceleration, whether pursuant to the award agreement or otherwise, in such circumstances as the Administrator may approve. The portion of any ISO accelerated in connection with an event referred to in this Section 7.2 (or such other circumstances as may trigger accelerated vesting of the award) shall remain exercisable as an ISO only to the extent the applicable $100,000 limitation on ISOs is not exceeded. To the extent exceeded, the accelerated portion of the option shall be exercisable as a nonqualified stock option under the Code.

8. OTHER PROVISIONS

8.1 ***Compliance with Laws***. This Plan, the granting and vesting of awards under this Plan, the offer, issuance and delivery of shares of Common Stock, and/or the payment of money under this Plan or under awards are subject to compliance with all applicable federal, state, local and foreign laws, rules and regulations (including but not limited to state and federal securities law and federal margin requirements) and to such approvals by any listing, regulatory or governmental authority as may, in the opinion of counsel for the Company, be necessary or advisable in connection therewith. The person acquiring any securities under this Plan will, if requested by the Company or one of its Subsidiaries, provide such assurances and representations to the Company or one of its Subsidiaries as the Administrator may deem necessary or desirable to assure compliance with all applicable legal and accounting requirements.

8.2 ***No Rights to Award***. No person shall have any claim or rights to be granted an award (or additional awards, as the case may be) under this Plan, subject to any express contractual rights (set forth in a document other than this Plan) to the contrary.

8.3 ***No Employment/Service Contract***. Nothing contained in this Plan (or in any other documents under this Plan or in any award) shall confer upon any Eligible Person or other participant any right to continue in the employ or other service of the Company or one of its Subsidiaries, constitute any contract or agreement of employment or other service or affect an employee's status as an employee at will, nor shall interfere in any way with the right of the Company or one of its Subsidiaries to change a person's compensation or other benefits, or to terminate his or her employment or other service, with or without cause. Nothing in this Section 8.3, however, is intended to adversely affect any express independent right of such person under a separate employment or service contract other than an award agreement.

8.4 ***Plan Not Funded***. Awards payable under this Plan shall be payable in shares or from the general assets of the Company, and no special or separate reserve, fund or deposit shall be made to assure payment of such awards. No participant, beneficiary or other person shall have any right, title or interest in any fund or in any specific asset (including shares of Common Stock, except as expressly otherwise provided) of the Company or one of its Subsidiaries by reason of any award hereunder. Neither the provisions of this Plan (or of any related documents), nor the creation or adoption of this Plan, nor any action taken pursuant to the provisions of this Plan shall create, or be construed to create, a trust of any kind or a fiduciary relationship between the Company or one of its Subsidiaries and any participant, beneficiary or other person. To the extent that a participant, beneficiary or other person acquires a right to receive payment pursuant to any award hereunder, such right shall be no greater than the right of any unsecured general creditor of the Company.

8.5 ***Tax Withholding***. Upon any exercise, vesting, or payment of any award, or upon the disposition of shares of Common Stock acquired pursuant to the exercise of an ISO prior to satisfaction of the holding period requirements of Section 422 of the Code, or upon any other tax withholding event with respect to any award, arrangements satisfactory to the Company shall be made to provide for any taxes the Company or any of its Subsidiaries may be required to withhold with respect to such award event or payment. Such arrangements may include (but are not limited to) any one of (or a combination of) the following:

(a) The Company or one of its Subsidiaries shall have the right to require the participant (or the participant's personal representative or beneficiary, as the case may be) to pay or provide for payment of the amount of any taxes which the Company or one of its Subsidiaries may be required to withhold with respect to such award event or payment.

(b) The Company or one of its Subsidiaries shall have the right to deduct from any amount otherwise payable in cash (whether related to the award or otherwise) to the participant (or the participant's personal representative or beneficiary, as the case may be) the amount of any taxes which the Company or one of its Subsidiaries may be required to withhold with respect to such award event or payment.

(c) In any case where a tax is required to be withheld in connection with the delivery of shares of Common Stock under this Plan, the Administrator may in its sole discretion (subject to Section 8.1) require or grant (either at the time of the award or thereafter) to the participant the right to elect, pursuant to such rules and subject to such conditions as the Administrator may establish, that the Company reduce the number of shares to be delivered by (or otherwise reacquire) the appropriate number of shares, valued in a consistent manner at their fair market value or at the sales price in accordance with authorized procedures for cashless exercises, necessary to satisfy the applicable withholding obligation on exercise, vesting or payment. Unless otherwise provided by the Administrator, in no event shall the shares withheld exceed the minimum whole number of shares required for tax withholding under applicable law to the extent the Company determines that withholding at any greater level would result in an award otherwise classified as an equity award under ASC Topic 718 (or any successor thereto) being classified as a liability award under ASC Topic 718 (or such successor).

8.6 ***Effective Date, Termination and Suspension, Amendments***.

8.6.1 ***Effective Date***. This Plan is effective as of April 11, 2017, the date of its approval by the Board (the "**Effective Date**"). This Plan shall be submitted for and subject to stockholder approval no later than twelve months after the Effective Date. Unless earlier terminated by the Board and subject to any extension that may be approved by stockholders, this Plan shall terminate at the close of business on the day before the tenth anniversary of the Effective Date. After the termination of this Plan either upon such stated termination date or its earlier termination by the Board, no additional awards may be granted under this Plan, but previously granted awards (and the authority of the Administrator with respect thereto, including the authority to amend such awards) shall remain outstanding in accordance with their applicable terms and conditions and the terms and conditions of this Plan.

8.6.2 ***Board Authorization.*** The Board may, at any time, terminate or, from time to time, amend, modify or suspend this Plan, in whole or in part. No awards may be granted during any period that the Board suspends this Plan.

8.6.3 ***Stockholder Approval.*** To the extent then required by applicable law or deemed necessary or advisable by the Board, any amendment to this Plan shall be subject to stockholder approval.

8.6.4 ***Amendments to Awards.*** Without limiting any other express authority of the Administrator under (but subject to) the express limits of this Plan, the Administrator by agreement or resolution may waive conditions of or limitations on awards to participants that the Administrator in the prior exercise of its discretion has imposed, without the consent of a participant, and (subject to the requirements of Sections 3.2 and 8.6.5) may make other changes to the terms and conditions of awards. Any amendment or other action that would constitute a repricing of an award is subject to the no-repricing provision of Section 3.3.

8.6.5 ***Limitations on Amendments to Plan and Awards.*** No amendment, suspension or termination of this Plan or amendment of any outstanding award agreement shall, without written consent of the participant, affect in any manner materially adverse to the participant any rights or benefits of the participant or obligations of the Company under any award granted under this Plan prior to the effective date of such change. Changes, settlements and other actions contemplated by Section 7 shall not be deemed to constitute changes or amendments for purposes of this Section 8.6.

8.7 ***Privileges of Stock Ownership***. Except as otherwise expressly authorized by the Administrator, a participant shall not be entitled to any privilege of stock ownership as to any shares of Common Stock not actually delivered to and held of record by the participant. Except as expressly required by

Section 7.1 or otherwise expressly provided by the Administrator, no adjustment will be made for dividends or other rights as a stockholder for which a record date is prior to such date of delivery.

8.8 Governing Law; Severability.

8.8.1 ***Choice of Law***. This Plan, the awards, all documents evidencing awards and all other related documents shall be governed by, and construed in accordance with the laws of the State of Delaware, notwithstanding any Delaware or other conflict of law provision to the contrary.

8.8.2 ***Severability***. If a court of competent jurisdiction holds any provision invalid and unenforceable, the remaining provisions of this Plan shall continue in effect.

8.9 ***Captions***. Captions and headings are given to the sections and subsections of this Plan solely as a convenience to facilitate reference. Such headings shall not be deemed in any way material or relevant to the construction or interpretation of this Plan or any provision thereof.

8.10 ***Stock-Based Awards in Substitution for Stock Options or Awards Granted by Other Corporation***. Awards may be granted to Eligible Persons in substitution for or in connection with an assumption of employee stock options, SARs, restricted stock or other stock-based awards granted by other entities to persons who are or who will become Eligible Persons in respect of the Company or one of its Subsidiaries, in connection with a distribution, merger or other reorganization by or with the granting entity or an affiliated entity, or the acquisition by the Company or one of its Subsidiaries, directly or indirectly, of all or a substantial part of the stock or assets of the employing entity. The awards so granted need not comply with other specific terms of this Plan, provided the awards reflect adjustments giving effect to the assumption or substitution consistent with any conversion applicable to the Common Stock (or the securities otherwise subject to the award) in the transaction and any change in the issuer of the security. Any shares that are delivered and any awards that are granted by, or become obligations of, the Company, as a result of the assumption by the Company of, or in substitution for, outstanding awards previously granted or assumed by an acquired company (or previously granted or assumed by a predecessor employer (or direct or indirect parent thereof) in the case of persons that become employed by the Company or one of its Subsidiaries in connection with a business or asset acquisition or similar transaction) shall not be counted against the Share Limit or other limits on the number of shares available for issuance under this Plan.

8.11 ***Non-Exclusivity of Plan***. Nothing in this Plan shall limit or be deemed to limit the authority of the Board or the Administrator to grant awards or authorize any other compensation, with or without reference to the Common Stock, under any other plan or authority.

8.12 ***No Corporate Action Restriction***. The existence of this Plan, the award agreements and the awards granted hereunder shall not limit, affect, or restrict in any way the right or power of the Company or any Subsidiary (or any of their respective shareholders, boards of directors or committees thereof (or any subcommittees), as the case may be) to make or authorize: (a) any adjustment, recapitalization, reorganization or other change in the capital structure or business of the Company or any Subsidiary, (b) any merger, amalgamation, consolidation or change in the ownership of the Company or any Subsidiary, (c) any issue of bonds, debentures, capital, preferred or prior preference stock ahead of or affecting the capital stock (or the rights thereof) of the Company or any Subsidiary, (d) any dissolution or liquidation of the Company or any Subsidiary, (e) any sale or transfer of all or any part of the assets or business of the Company or any Subsidiary, (f) any other award, grant, or payment of incentives or other compensation under any other plan or authority (or any other action with respect to any benefit, incentive or compensation), or (g) any other corporate act or proceeding by the Company or any Subsidiary. No participant, beneficiary or any other person shall have any claim under any award or award agreement against any member of the Board or the Administrator, or the Company or any employees, officers or agents of the Company or any Subsidiary, as a result of any such action.

8.13 ***Other Company Benefit and Compensation Programs***. Payments and other benefits received by a participant under an award made pursuant to this Plan shall not be deemed a part of a participant's compensation for purposes of the determination of benefits under any other employee welfare or benefit plans or arrangements, if any, provided by the Company or any Subsidiary, except where the Administrator expressly otherwise provides or authorizes in writing. Awards under this Plan may be made in addition to, in combination with, as alternatives to or in payment of grants, awards or commitments under any other plans, arrangements or authority of the Company or its Subsidiaries.

8.14 ***Clawback Policy***. The awards granted under this Plan are subject to the terms of the Company's recoupment, clawback or similar policy as it may be in effect from time to time, as well as any similar provisions of applicable law, any of which could in certain circumstances require repayment or forfeiture of awards or any shares of Common Stock or other cash or property received with respect to the awards (including any value received from a disposition of the shares acquired upon payment of the awards).

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2016

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

Commission File Number: 000-18805

ELECTRONICS FOR IMAGING, INC.
(Exact name of registrant as specified in its charter)

Delaware	**94-3086355**
(State or other Jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

6750 Dumbarton Circle, Fremont, CA 94555
(Address of principal executive offices) (Zip Code)

(650) 357-3500
(Registrant's telephone number, including area code)

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

Title of Each Class	Name of Exchange on which Registered
Common Stock, $.01 Par Value	The NASDAQ Stock Market LLC

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

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

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

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

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

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

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐

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

The aggregate market value of the voting and non-voting common stock held by non-affiliates computed by reference to the price at which the common stock was last sold on June 30, 2016 was $1,986,886,899 *

The number of shares outstanding of the registrant's common stock, $.01 par value per share, as of January 26, 2017 was 46,431,857.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement to be delivered to stockholders in connection with the 2017 Annual Meeting of Stockholders are incorporated by reference into Part III hereof.

* Based on the last trade price of the registrant's common stock reported on The NASDAQ Global Select Market on June 30, 2016, the last business day of the registrant's second quarter of the 2016 fiscal year.

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FORWARD-LOOKING STATEMENTS

Certain of the information contained in this Annual Report on Form 10-K, including, without limitation, statements made under this Part I, Item 1, "Business," Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and Part II Item 7A, "Quantitative and Qualitative Disclosures about Market Risk," which are not historical facts, may include "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended ("Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended ("Exchange Act"), and is subject to risks and uncertainties and actual results or events may differ materially. When used herein, the words "anticipate," "believe," "consider," "continue," "develop," "estimate," "expect," "goal," "intend," "look," "may," "plan," "potential," "project," "seek," "should," "target," "will," variations of such words, and similar expressions as they relate to the Company or its management are intended to identify such statements as "forward-looking statements." Such statements reflect the current views of the Company and its management with respect to future events and are subject to certain risks, uncertainties, and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, the Company's actual results, performance, or achievements could differ materially from the results expressed in, or implied by, these forward-looking statements. Important factors that could cause the Company's actual results to differ materially from those included in the forward-looking statements made herein include, without limitation, those factors discussed in Item 1, "Business," in Item 1A, "Risk Factors," and elsewhere in this Annual Report on Form 10-K and in the Company's other filings with the Securities and Exchange Commission ("SEC"), including the Company's most recent Quarterly Report on Form 10-Q and Current Reports on Form 8-K, and any amendments thereto. The Company assumes no obligation to revise or update these forward-looking statements to reflect actual results, events, or changes in factors or assumptions affecting such forward-looking statements.

PART I

References to "EFI," the "Company," "we," "us," and "our" mean Electronics For Imaging, Inc. and its subsidiaries, unless the context indicates otherwise.

Item 1: Business

Filings

We file Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, proxy statements, and other documents with the SEC under the Exchange Act. The public may read and copy any materials that we file with the SEC at the SEC's Public Reference Room at Room 1580, 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an internet website that contains reports, proxy statements, information statements, and other information regarding issuers, including EFI, that file electronically with the SEC. The public can obtain any documents that we file with the SEC at http://www.sec.gov.

We also make available free of charge through our internet website (http://www.efi.com) our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, proxy statements, and if applicable, amendments to those reports filed or furnished pursuant to the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. None of the information on our website is incorporated by reference into our reports filed with, or furnished to, the SEC.

General

EFI was incorporated in Delaware in 1988 and commenced operations in 1989. Our initial public offering of common stock was completed in 1992. Our common stock is traded on The NASDAQ Global Select Market under the symbol EFII. Our corporate headquarters are located at 6750 Dumbarton Circle, Fremont, California 94555.

We are a world leader in customer-centric digital printing innovation focused on the transformation of the printing, packaging, ceramic tile decoration, and textile industries from the use of traditional analog based printing to digital on-demand printing.

Our products include industrial super-wide and wide format display graphics, label and packaging, textile, and ceramic tile decoration digital inkjet printers that utilize our digital ink, industrial digital inkjet printer parts, and professional services; print production workflow, web-to-print, cross-media marketing, fashion design, and business process automation solutions; and color printing digital front ends ("DFEs") creating an on-demand digital printing ecosystem. Our ink includes digital ultra-violet ("UV") curable, light emitting diode ("LED") curable, ceramic, water-based, and thermoforming ink, as well as a variety of textile ink including dye sublimation, pigmented, reactive dye, acid dye, pure disperse dye, and water-based dispersed printing ink. Our award-winning business process automation solutions are integrated from creation to print and are vertically integrated with our industrial digital inkjet printers and products produced by the leading production digital color page printer manufacturers that are driven by our Fiery DFEs.

Our product portfolio includes industrial super-wide and wide format digital inkjet products ("Industrial Inkjet") including VUTEk and Matan display graphics super-wide and wide format, Reggiani textile, Jetrion label and packaging, and Cretaprint ceramic tile decoration and construction material industrial digital inkjet printers and ink; print production workflow, web-to-print, cross-media marketing, Optitex textile two-dimensional ("2D") and three-dimensional ("3D") computer aided fashion design ("CAD") applications, and business process automation software ("Productivity Software"), which provides corporate printing, label and packaging, publishing, and mailing and fulfillment solutions for the printing and packaging industry; and Fiery DFEs ("Fiery"). Our integrated solutions and award-winning technologies are designed to automate print and business processes, streamline workflow, provide profitable value-added services, and produce accurate digital output.

Products and Services

Industrial Inkjet

Our Industrial Inkjet products address the high-growth industrial digital inkjet markets where significant conversion of production from analog to digital inkjet printing is occurring. The Industrial Inkjet operating segment consists of our VUTEk and Matan super-wide and wide format display graphics, Reggiani textile, Jetrion label and packaging, and Cretaprint ceramic tile decoration and construction material industrial digital inkjet printers; digital UV curable, LED curable, ceramic, water-based, and thermoforming ink, as well as a variety of textile ink including dye sublimation, pigmented, reactive dye, acid dye, pure disperse dye, and water-based dispersed printing ink; digital inkjet printer parts; and professional services. Printing surfaces include paper, vinyl, corrugated, textile, glass, plastic, aluminum composite, ceramic tile, wood, and many other flexible and rigid substrates.

Customer Base. Our industry-leading VUTEk and Matan super-wide format UV, LED, and thermoforming industrial digital inkjet printers and ink are used by commercial photo labs, large sign shops, graphic screen printers, specialty commercial printers, and digital and billboard graphics providers serving the out-of-home advertising and industrial specialty print segments by printing banners, signage, building wraps, flags, point of purchase and exhibition signage, backlit displays, fleet graphics, photo-quality graphics, art exhibits, customized architectural elements, billboards, thermoplastic decoration, and other large graphic displays. We sell EFI hybrid and roll-to-roll flatbed UV wide format graphics printers and ink to the entry-level and mid-range industrial digital inkjet display graphics printer market. We sell Reggiani textile digital inkjet printers and textile ink to the display graphics soft signage market and contract printers serving major textile brand owners and fashion designers, as well as the global printed textile industry. We sell Cretaprint ceramic tile decoration and construction material digital inkjet printers and ceramic digital ink to the ceramic tile construction materials manufacturing industries. We sell Jetrion label and packaging digital inkjet printing systems, custom high-performance integration solutions, and specialty ink to the converting, packaging, and direct mail industries. The

Nozomi single-pass industrial digital inkjet platform will be sold to the corrugated, paper packaging, display graphics, and other markets when this product is launched in 2017.

Our VUTEk and Matan super-wide, wide format, and Jetrion label and packaging industrial digital inkjet printers incorporate “cool cure” LED printing technology. LED technology uses less heat than the traditional curing process resulting in increased uptime and greater reliability. Energy assessments conducted by the Fogra Graphic Technology Research Association have shown that our super-wide format printers with LED curing can reduce energy consumption by up to 82% when compared with devices that use conventional mercury arc lamps.

Super-wide Format. We launched next generation models and new finishing modules for our GS and HS series of high-speed, high-resolution super-wide format industrial digital inkjet printers in 2016, 2015, and 2014, as well as the Quantum LXr super-wide format industrial digital inkjet roll-to-roll printer in 2016.

Our HS series of printers are alternatives to analog presses used by high volume graphic producers and are based on pin & cure printing technology. We launched the HS125 Pro digital inkjet printer in 2016, which is a 3.2 meter hybrid flatbed/roll-fed printer that prints on rigid and flexible materials up to two inches thick utilizing UltraFX Technology that enhances the visual impact of the printed image and reduces the appearance of unwanted visual artifacts.

The GS/LX family of super-wide format industrial digital inkjet printers offers the highest quality in a super-wide format. We launched next generation models and new finishing modules for our GS series of high-speed, high-resolution super-wide format industrial digital inkjet printers in 2016, 2015, and 2014. The LX models incorporate LED technology. We launched the 3.2 meter hybrid flatbed/roll-fed LX3 Pro digital inkjet printer in 2015, which prints on rigid and flexible materials up to two inches thick utilizing UltraFX Technology. The LX3 is well suited for the point-of-purchase printing environment. We added ultra-drop capability to our GS3250LX and GS2000LX hybrid printers in 2014. Ultra-drop technology offers smaller drop sizes and more precise control. The five meter roll-to-roll GS5500LXr Pro LED inkjet printer was launched in 2014.

The H/QS family of super-wide format industrial digital inkjet printers offers high quality and productivity for the mid-range market in a super-wide format. In 2014, we launched the two meter H2000 Pro printer, which provides a more affordable entry point into high-end production printing for signage and graphics companies with the option to add features as their business grows. H2000 Pro users can run rigid, sheet and flexible media up to two inches thick.

Matan super-wide format industrial digital inkjet roll-to-roll printers include advanced material handling features such as in-line cutting and slitting. The Quantum super-wide format LED UV-curing industrial digital inkjet printer provides resolution up to 1,200 dpi. The Q Series of super-wide format industrial digital inkjet printers are well suited for high volume requirements and feature print speeds up to 3,800 square feet per hour. The Flex series of super-wide format industrial digital inkjet printers serve the fleet graphics market with flexible UV curable ink and protective coating for high-definition, closely-viewed truck side curtains, car wraps, and floor graphics. In 2016, we launched the Quantum LXr 5.2 and 3.5 meter LED roll-to-roll printer, which is an alternative to latex printers featuring 7-picoliter imaging and resolution up to 1,200 dpi.

Wide Format. Our EFI hybrid flatbed/roll-to-roll and dedicated roll-to-roll entry level, overflow, and specialty production UV wide format digital inkjet printers are developed, manufactured, and marketed to the entry-level and mid-range industrial digital inkjet printer market. We launched our wide format H1625 SD 1.65 meter hybrid roll /flatbed printer in 2015. The H1625 SD utilizes thermoforming ink, which enables sign makers and printing companies to print directly onto thermoplastic sheet materials, which can then be formed into deep draw, high elongation parts while retaining hue and opacity. We launched our wide format H1625 RS printer in 2015, which prints 1.6 meter widths directly to 3M reflective media in roll, sheeted, and mounted to rigid forms. We launched our wide format H1625 hybrid roll / flatbed printer in 2014. The H1625 includes LED technology enabling printing on a broad range of substrates, including media that cannot withstand the high-heat drying or curing methods used in other inkjet platforms.

Textile. Reggiani industrial digital inkjet textile printers address the full scope of advanced textile printing with versatile printers suitable for pigmented, reactive dye, acid dye, and water-based dispersed printing ink. Reggiani is at the forefront of the emergence of digital printing as an alternative to either analog printing or single color (dyed) garments. Reggiani provides an overall solution for the entire textile printing process from yarn treatment to fabric printing and finishing for a wide variety of substrates and applications (fashion, home textile, sportswear, signage, flooring, automotive, and outdoor).

A significant driver for the adoption of digital textile printing is the growth of "fast fashion," which is a term used by fashion retailers to express the need for designs to move quickly from the catwalk to the retailer to capture current fashion trends. The digital textile printing market has also benefitted from sports apparel with short run production quantities, closer geographic proximity to end-use markets, and environmental awareness.

Reggiani industrial digital inkjet textile printing systems use water-based inks and advanced streamlined automation that provide a total solution for textile businesses. The TOP digital inkjet textile printer is a fast throughput machine that can be used with reactive, acid, disperse, dye sublimation, and pigmented inks. The Essetex 2 meter wide washing box is the ideal system for knitted and light fabrics, particularly where print washing is beneficial for delicate textiles and for post-dyeing of printed cloth. The ReNOIR NEXT printer prints on fabrics and paper using the same ink set with a 1.8 meter beltless digital printing system and offers simplified material handling, a compact footprint, and a lower acquisition cost, making it an ideal entry-level textile printing production device.

In 2016, we launched the 1.8 and 3.4 meter VUTEk FabriVU super-wide format industrial digital inkjet soft signage printers, which utilize water-based sublimation ink and are manufactured in our Reggiani facility. FabriVU offers print speeds up to 464 square meters per hour at 600 dpi and high resolution up to 2,400 dpi and utilize water-based sublimation ink.

Label and Packaging. In 2016, we introduced the Nozomi single-pass industrial digital inkjet platform, which is expected to be launched in 2017. The Nozomi C18000 is a 1.8 meter, single pass, high speed LED industrial digital inkjet corrugated packaging press for the corrugated, paper packaging, display printing, and other markets that prints up to 75 linear meters (246 linear feet) per minute.

Our Jetrion label and packaging digital inkjet printers provide a wide array of label and packaging digital inkjet systems, custom high-performance integration solutions, and specialty digital UV and LED curable ink to the label and packaging industries. Our Jetrion 4950LX industrial digital inkjet label and packaging printer was launched in 2014. It incorporates full LED curing, image quality greater than 1,000 dpi, and a white printing option. The 4950LX printer features digital printing and inline finishing in one machine.

Ceramic Tile Decoration. Our Cretaprint ceramic tile decoration digital inkjet printers are utilized by the ceramic tile and construction material manufacturing industries. The ceramic tile decoration market is transitioning from analog to digital inkjet printing technology.

We launched the Cretaprint D4 in 2016, which features up to 12 print bars, and gives users the ability to incorporate a full range of ceramic ink and digital print effects. We also launched the Cretaprint M4 and M4 SOL printer platforms in 2016, which allow customers to print on larger tile sizes up to 1,180 mm wide and offers enhanced imaging quality with variable-drop grayscale imaging. The Cretaprint M4 SOL is a soluble salt ink printer.

We launched the Cretaprint C4, which is our next generation ceramic tile decoration digital inkjet printer in 2015. Electronics and ink systems have been upgraded to maximize accuracy in a broad range of production conditions. The Cretaprint C4 printer allows the use of different print heads and digital applications on the same machine.

Ink. Our ink provides a recurring revenue stream generated from sales to our existing customer base of installed printers.

VUTEk printers primarily use digital UV and LED curable ink, although our solvent ink printers remain in use in the field. We were first to market with digital UV curable ink incorporating "cool cure" LED technology for use in high-end production super-wide, wide format, and label and packaging digital inkjet printing systems. We sell a variety of third party branded textile ink to users of our textile digital inkjet printers, including dye sublimation, pigmented, reactive dye, acid dye, and water-based dispersed printing ink. We launched internal formulation of our ceramic digital ink in 2014, which was expanded to included soluble salt-based ceramic ink in 2016. We launched internal formulation of our reactive dye ink in 2016.

In 2016, we introduced AquaEndure acqueous ink, which is a water-based inkjet ink that will be used across many of our printers in the future.

We acquired Rialco Limited ("Rialco") in 2016, which supplies dye powders and color products for the textile, digital print, and other decorating industries. Rialco's pure disperse dyes are particularly important in the manufacture of high-quality dye sublimation inkjet inks for textile applications, which is a key growth area in the global migration from analog to digital print. Rialco's technical and commercial capabilities benefit the Industrial Inkjet operating segment in the sourcing, specification, and purification of high quality dyes and expand our research, development, and innovation base to develop ink for the signage, ceramic, and packaging markets.

We accelerated our ink development capability with the purchase of technology from Polymeric Imaging, Inc. ("Polymeric") in 2014. Polymeric has extensive experience developing digital inkjet ink and coatings that address important curing, adhesion, density, and durability issues that are encountered when printing on challenging substrates. We use the technology to enhance capabilities for thermoforming and other high-elongation applications.

Our industrial digital inkjet printers and their related features are as follows:

Printer Type	Models	Capabilities	Application Examples
VUTEk super-wide format	HS, GS/LX, H/QS, and FabriVU Series printers EFI and 3M(R) co-branded Digital UV and LED, AquaEndure aqueous, and thermoforming UV ink	Printing widths of 2 to 5 meters; up to two inch thickness; 6, 7, and 8 colors, plus white and greyscale; up to 2400 dpi; flexible and rigid substrates; 1.8-meter and 3.4-meter wide aqueous-based soft signage printer models with speeds up to 500 square meters per hour; UV curable, LED “cool cure,” aqueous, and thermoforming digital UV inks.	Super-wide format banners, signage, building wraps, flags, point of purchase and exhibition signage, backlit displays, fleet graphics, photo-quality graphics, art exhibits, customized architectural elements, billboards, and thermoplastic decoration.
Matan super-wide format	Quantum, Q series, and Flex series printers Quantum LED curable ink Matan UV curable ink MatanFlex stretchable ink	Speeds up to 353 square meters per hour Printing widths of 3 to 5 meters; up to two inch thickness; 4, 7, and 8 colors, plus white and greyscale; up to 1200 dpi; flexible and rigid substrates; UV curable and LED “cool cure” ink.	Fleet graphics, traffic signage, labels, tags, decals, membranes, license plates, and sign printing
EFI wide format	R family roll-to-roll H family hybrid printers EFI H1625 LED 3M™ ink SD thermoforming ink	Speeds up to 87.2 square meters per hour (roll-to-roll) and 42.3 square meters per hour (hybrid), up to 1200 dpi, 4 colors plus white and greyscale, up to 2 inch thickness, flexible and rigid substrates, UV curable, and LED “cool cure” ink.	Wide format indoor and outdoor graphics with photographic image quality. Entry-level and mid-range markets. Overflow and specialty markets.
Reggiani textile	Reggiani textile printers Dye sublimation, pigmented, reactive dye, acid dye, and water-based dispersed printing ink	Speeds up to 320 square meters per hour Substrates from ultra-light to heavy, up to 2400 dpi; dye sublimation, pigmented, reactive dye, acid dye, and water-based dispersed printing ink	Contract printers serving major textile brand owners and fashion designers Textile soft signage market Global printed textile industry
Jetrion label & packaging	4950LX 4900M/ 4900M-330 4900ML Jetrion inks	Print resolutions greater than 720 dpi; 4 colors plus white, printing width up to 13 inches, UV curable, and LED “cool cure.” The 4900 platform enables digital printing and finishing in a single end-to-end system.	Primary and secondary label applications, Industrial label or flexible packaging markets. Custom high performance integration solutions.
Cretaprint ceramic tile decoration	Cretaprint C4, C3, P3 Cretaprint M4 and M4 SOL Cretaprint D4 Cretaplotter Cretaprint ink	Single chassis accommodates up to 8 print bars. 1,000 customizable settings controlling printer widths up to 1.4 meters, speed, direction, and discharge.	Ceramic tile industry Construction materials industry

Productivity Software

To provide our customers with solutions to manage and streamline their printing operations, we have developed technology that enhances printing workflow and makes printing operations more powerful, productive, cost effective, and easier to manage. Most of our software solutions have been developed with the express goal of automating print processes and streamlining workflow via open, integrated, and interoperable products, services, and solutions.

The Productivity Software operating segment consists of a complete software suite that enables efficient and automated end-to-end business and production workflows for the print and packaging industry. This *Productivity Suite* also provides tools to enable revenue growth, efficient scheduling, and optimization of processes, equipment, and personnel. Customers are provided the financial and technical flexibility to deploy locally within their business or to be hosted in the cloud. The Productivity Suite addresses all segments of the print industry and consists of the: (i) *Packaging Suite,* with Radius at its core, for tag & label, cartons, and flexible packaging businesses; (ii) *Corrugated Packaging Suite,* with CTI at its core, for corrugated packaging businesses; (iii) *Enterprise Commercial Print Suite* with Monarch at its core, for enterprise print businesses; (iv) *Publication Print Suite,* with Monarch or Technique at its core, for publication print businesses; (v) *Mid-market Print Suite,* with Pace at its core, for medium size print businesses; (vi) *Quick Print Suite,* with PrintSmith at its core, for small printers and in-plant sites; and (vii) *Value Added Products,* available with the suite and standalone, such as web-to-print, e-commerce, cross media marketing, warehousing, fulfillment, shop floor data collection, and shipping to reduce costs, increase profits, and offer new products and services to their existing and future customers. We also market Optitex fashion CAD software, which facilitates fast fashion increased efficiency in the textile and fashion industries.

Customer Base. We sell the *Packaging Suite* to the label, cartons, and flexible packaging industry; the *Corrugated Packaging Suite* to the corrugated packaging industry; the *Enterprise Commercial Print Suite* to large and multi-national commercial print businesses; the *Publication Print Suite* to publication and direct mail print businesses; the *Mid-market Print Suite* to medium size commercial print businesses, display graphics providers, and government printing operations; the *Quick Print Suite* to small printers and in-plant printing operations; *Value Added Products* including Digital StoreFront and DirectSmile to customers desiring e-commerce, web-to-print, and cross-media marketing solutions; and Optitex to the leading fashion brands and manufacturers.

Our enterprise resource planning and collaborative supply chain business process automation software solutions are designed to enable printers and print buyers to improve productivity and customer service while reducing costs. Web-to-print applications for print buyers and print producers facilitate web-based collaboration across the print supply chain. Customers recognize that business process automation is essential to improving their business practices and profitability. We are focused on making our business process automation solutions the global industry standard. We provide consulting and support services, as well as warranty support for our software products. We typically sell an annual full service maintenance agreement with each license that provides warranty protection from date of shipment. The sale and renewal of annual maintenance agreements provide a recurring revenue stream.

Optitex markets integrated 2D and 3D CAD software that shortens the design cycle, reduces our customers' costs, and accelerates the adoption of fast fashion. The acquisition of Optitex Ltd. ("Optitex") in 2016 expands our presence in the digital inkjet textile printing market through the synergy of Optitex technology with the Reggiani digital inkjet textile printer business.

New Version Releases and Product Offerings. Integration among our software offerings is achieved through the end-to-end automation including certified workflows and synchronized releases across multiple products afforded by our Productivity Suite consisting of the Packaging Suite, Corrugated Packaging Suite, Enterprise Commercial Print Suite, Publication Print Suite, Mid-market Print Suite, Quick Print Suite, and Value Added Products. Integration of our software product offerings provides:

- Out-of-the-box, end-to-end optimized workflows,

- Certified integration and automation,
- Global visibility that makes effective and proactive decision making possible;
- Solid modular, flexible, and scalable software foundation supporting product and customer profit evolution and diversification.

New versions have been released for each of our significant software components and new product offerings have resulted from strategic business acquisitions. New product offerings that have resulted from strategic business acquisitions are described under “Growth and Expansion Strategies” below.

The 2016 release of the Midmarket Print Suite includes web-to-print, cross-media marketing, estimating, scheduling, accounting, and fulfillment applications. Enhancements include easier access to quotes, improved estimating, and more advanced filtering tools to drive efficiency in job estimating and production. Product-specific applications unique to the super-wide format print space, such as fleet and vehicle wraps, point-of-purchase signage and outdoor graphics. The 2016 release of the Quick Print Suite includes a cloud-based platform for in-plant and quick print operations to reduce the customer deployment and maintenance burden. The 2016 release of the Packaging Suite includes 22 certified workflows that provide unprecedented levels of business and production automation geared toward folding carton, tag and label, and flexible package converting environments. Enhancements integrate Radius software, intelligent estimating and planning with iQuote software, automated planning optimization with Metrix software, and key third party software such as the Esko Automation Engine. The 2016 release of the Enterprise Commercial Print Suite includes improvements in inventory and purchasing, support for Digital StoreFront web-to-print services, stronger customer relationship management tools including the ability to add attachments to forms and expanded reporting capabilities and extended capabilities in dynamic estimating and planning.

The Optitex Collaborate Application was released in early 2017 and is driven by cloud-based textile design technology that enables instant sharing among pattern makers, designers, and print teams for faster and more accurate apparel prototyping.

Our primary software offerings include:

Product Name	Description	User
Business process automation software: Monarch, PSI, Logic, PrintSmith, PrintFlow, Radius, CTI, SmartLinc, Graphisoft, PC Topp, DiMS!, PrintStream, Prism, IQuote, Technique, Shuttleworth, Lector, GamSys, and Alphagraph	Collect, organize, and present business process information to improve productivity and customer service while reducing costs.	Commercial, publishing, digital, in-plant, print for pay, large format, direct mail, and specialty printing, shipping and logistics, and packaging companies.
Cloud-based business process automation software: Pace	Software modules for estimating, scheduling, print production, accounting, e-commerce, and web-to-print.	Commercial, digital, display graphics, in- plant, and print for pay printing companies. Government printing operations.
Imposition solutions for estimating, planning, and integration into prepress and postpress solutions: Metrix	Imposition solutions for a broad range of product types and sizes and printing processes.	Customers desiring a solution to bridge the gap between business process automation and prepress that are not served by the Fiery and Fiery XF imposition tools.
Cloud-based order entry and order management systems, along with cross-media marketing: Digital StoreFront, DirectSmile, PrinterSite, and PrintSmith Site	Procurement applications for print buyers, print producers, and marketing professionals to facilitate cloud-based collaboration across the supply chain.	Commercial, publishing, digital, in-plant, print for pay, large format, and specialty printers.
Optitex Textile 3D Design Software—O/Dev Pattern Marking Suite, O/Dev 3D Sampling Suite, O/Pro Marker Making Suite, O/Pro Cutting Room Optimization Suite, and O/Sel Digital Collection	Development and production software that builds patterns, visualize in 3D, streamlines marker making and cut order workflow, and cloud-based applications for show case design	Leading fashion brands, fashion retailers, and manufacturers in commercial and apparel industries

Fiery

Our Fiery brand consists of DFEs that transform digital copiers and printers into high performance networked printing devices for the office, commercial, and industrial printing markets. Once networked, Fiery-powered printers and copiers can be shared across workgroups, departments, the enterprise, and the internet to quickly and economically produce high-quality color products. We have direct relationships with several leading printer manufacturers. We work closely together to design, develop, and integrate Fiery DFE and software technology to maximize the capability of each print engine. The printer manufacturers act as distributors and sell Fiery products to end customers through reseller channels. End customer and reseller channel preference for the Fiery DFE and software solutions drives demand for Fiery products through the printer manufacturers.

Fiery products are comprised of (i) stand-alone DFEs connected to digital printers, copiers, and other peripheral devices, (ii) embedded DFEs and design-licensed solutions used in digital copiers and multi-functional devices, (iii) optional software integrated into our DFE solutions such as Fiery Central and Graphics Arts Package, (iv) Fiery Self Serve, our self-service and payment solution, (v) PrintMe, our mobile printing application, and (vi) stand-alone software-based solutions such as our proofing and scanning solutions.

Fiery DFEs. The Fiery XB DFE was released in 2016 incorporating a scalable high-volume blade server technology for high speed inkjet presses processing at 100 meters per minute of 1.8 meter wide corrugated boards or in excess of 13,000 sheets per hour, which is the equivalent of approximately 173 cut-sheet toner engines printing simultaneously at 100 pages per minute. The Fiery FS200 Pro DFE was released in 2015 incorporating higher speed processing, expanded color offerings, shop automation, and connectivity. The Fiery FS150 Pro DFE was released in 2014. It simultaneously processes a print job on four processor cores allowing print jobs to be processed up to 55% faster.

Fiery XF is a DFE and color management workflow for super-wide and wide format printing and proofing. Fiery XF 6.0 was released in 2014 featuring real WYSIWYG tiling preview, the Fiery Dynamic Smoothing function, and the Fogra Process Standard Digital. The Fogra Graphic Technology Research Association establishes process standards for the digital printing industry. Fiery proServer is a DFE and color management workflow for the super-wide format and ceramic tile decoration digital inkjet printer market.

Fiery proServer 7.0 was released in 2015 and processes complex vector data up to seven times faster than its predecessor. Fiery proServer 6.0 was released in 2014 featuring Fiery Accelerated System Technology, which processes Adobe PDF files up to seven times faster than previous versions of proServer. Although designed for our super-wide and wide format, Fiery proServer is compatible with 540 super-wide, wide format, and ceramic printers from numerous major manufacturers.

Software Solutions. Fiery Command WorkStation 5.6 job management interface software was released in 2014 featuring automated job presets, faster job searching capabilities, new user interface, advanced tools for printing multi-bank and bleed-edge tabbed documents, and an integrated analytics tool, Fiery Dashboard.

Fiery Workflow Suite is an integrated set of Fiery products, including Fiery Central, Fiery JobFlow, and Fiery JobMaster, among others, to deliver a fully integrated workflow from job submission and business management to scheduling, preparation, and production.

Fiery Navigator is a cloud-based digital printing business intelligence tool for digital production presses that was launched in 2016. Fiery Navigator provides printers with more insight into their production data to optimize resource allocation, ensure compliance with operating procedures, and make equipment decisions by capturing key operational data points and displaying production analytics in a comprehensive, customizable dashboard.

Fiery Self Serve. is a leading provider of self-service and payment solutions that allows service providers to offer access to business machines including printers, copiers, computers/internet access, fax machines, and photo printing kiosks from mobile phones, iPad ® , USB drives, and cloud accounts such as Google Drive TM Dropbox. The M500 is a flexible and scalable system, which addresses demands for printing from any mobile device as well as from popular cloud storage services, and accepts credit cards, campus cards, and cash cards at the device, thereby eliminating the need for coin-operated machines. In 2014, we announced integration with campus identification card systems and campus card solutions such as CBORD, Odyssey, and Blackboard. We also announced the release of Self-Serve AdminCentral, which is a cloud-based management system for the M500 product.

PrintMe. PrintMe Connect enables direct printing from Apple® , iPad® , iPhone® , iPod touch® iOS 10-enabled, and other mobile devices to Fiery-driven printers or multi-function peripherals. PrintMe was the world’s first cloud-based printing platform that enabled mobile workers to upload their documents to the PrintMe cloud and securely print them on any PrintMe-enabled printer.

Our DFE platforms, primary printer manufacturer customers, and end user environments are as follows:

Platform	Printer Manufacturers or Customers	User Environments
Fiery external DFEs	Canon, Fuji Xerox, Konica Minolta, Kyocera Document Solutions, Landa, Ricoh, RISO, Sharp, Toshiba, Xerox	Print for pay, corporate reprographic departments, graphic arts, advertising agencies, and transactional & commercial printers
Fiery embedded DFEs and design-licensed solutions	Canon, Epson, Fuji Xerox, Intec, Kodak, Konica Minolta, Kyocera Document Solutions, Oki Data, Ricoh, Sharp, Toshiba, Xerox	Office, print for pay, and quick turnaround printers
Fiery Central, MicroPress Fiery Navigator Fiery Workflow Suite	Canon, Konica Minolta, Kyocera Document Solutions, Ricoh, Sharp, Xerox	Corporate reprographic departments, commercial printers, and production workflow solutions
Fiery Self Serve	Canon, FedEx Office, Konica Minolta, Ricoh, Staples, Xerox	ExpressPay self-service and payment solutions for retail copy and print stores, hotel business centers, college campuses, and convention centers
PrintMe	Canon, Channel Build Solutions, individual hotels, smaller channel resellers	Mobile printing from any mobile device to any network printer
Production Inkjet and Proofing software: ColorProof XF, Pro, Fiery XF, Fiery proServer,	Digital color proofing and inkjet production print solutions offering fast, flexible workflow, power, and expandability	Digital, commercial and hybrid printers, prepress providers, publishers, creative agencies and photographers, ceramic tile, decoration, and super-wide & wide format print providers

Form 10-K

Sales, Marketing, and Distribution

We have assembled, internally and through acquisitions, an experienced team of technical support, sales, and marketing personnel with backgrounds in color reproduction, digital pre-press, image processing, business process automation systems, networking, and software and hardware engineering, as well as market knowledge of enterprise printing, graphic arts, fulfillment systems, cross-media marketing, imposition solutions, textile printing, fashion design, ceramic tile decoration, and commercial printing. We expect to continue to expand the scope and sophistication of our products and gain access to new markets and channels of distribution by applying our expertise in these areas.

Industrial Inkjet

Our Industrial Inkjet products are sold primarily through our direct sales force augmented by some select distributors. Any interruption of either of these distribution channels could negatively impact us in the future. See Item 1A: Risk Factors—*We rely on our distribution channels to ensure sales growth.*

Textile digital printing is an alternative to either analog printing or single color (dyed) garments. Widespread adoption of digital textile printing depends on the willingness and ability of businesses in the printed textile industry to replace their existing analog printing systems and single color (dyed) garments with digital printing systems.

The adoption of digital textile printing is dependent to some extent on the growth of “fast fashion,” and has also benefitted from sports apparel with shorter production runs, closer geographic proximity to end-use markets, and environmental awareness. A key element of our inkjet textile printing growth strategy is to market digital inkjet printing systems to contract printers that serve major textile brand owners and fashion designers.

The ceramic tile industry has undergone a shift from southern Europe (e.g., Spain and Italy) to the emerging markets of China, India, Brazil, and Indonesia. As a result, we operate a Cretaprint sales and support center in Foshan, Guangdong, China, in addition to our facilities in Spain. Foshan is home to the largest concentration of ceramic tile manufacturers in China.

We promote our Industrial Inkjet products through public relations, direct mail, advertising, promotional material, trade shows, and ongoing customer communication programs. The majority of sales leads for our inkjet printer sales are generated from trade shows. There were approximately 1,500 attendees from 25 countries at our 2016 EFI Connect trade show, which generates leads for the Industrial Inkjet and Productivity Software operating segments and generates end user demand for the Fiery segment. We also participated in Drupa, which is the largest printing equipment trade show in the world and is held once every four years. Drupa was attended by over 260,000 attendees from more than 180 countries in 2016.

We have established a new e-commerce platform specifically for fabric soft signage production operations. The soft signage on-line ordering technology offers a new level of turnkey flexibility for increasingly popular fabric graphics applications, including outdoor, trade show, and point-of-purchase displays.

In 2016, we entered into an agreement with a third party that facilitates our European customers' equipment financing. The agreement will provide customers with new leasing opportunities for EFI's industrial digital inkjet printers in many European countries.

Productivity Software

Our enterprise resource planning and collaborative supply chain business process automation software solutions within our Productivity Software portfolio are primarily sold directly to end users by our direct sales force. An additional distribution channel for our Productivity Software products is through sales to a mix of distribution channels consisting of authorized distributors, dealers, and resellers who in turn sell the software solutions to end users either stand-alone or bundled with other solutions they offer.

We have distribution agreements with some customers, including Canon, Konica Minolta, Ricoh, Xerox, Esko, and Veritiv (formerly xpedx). There are a number of small private resellers of our business process automation software in different geographic regions throughout the world where a direct sales force is not cost-effective.

We sell Optitex directly to the leading fashion brands and manufacturers through a direct sales force and distribution channels consisting of authorized distributors, dealers, and resellers.

Fiery

The primary distribution channel for our Fiery products is through our direct relationships with several leading printer manufacturers. We work closely together to design, develop, and integrate Fiery DFE and software technology to maximize the capability of each print engine. The printer manufacturers act as distributors and sell Fiery products to end customers through reseller channels. End customer and reseller channel preference for our Fiery DFE and software solutions drives demand for Fiery products through the printer manufacturers.

Although end customer and reseller channel preference for Fiery products drives demand, most Fiery revenue relies on these significant printer manufacturers/distributors to integrate Fiery technology into the design and development of their print engine as described above. See Item 1A: Risk Factors—*We do not typically have long-term purchase commitments with the printer manufacturer customers that purchase our Fiery DFE and software solutions. They have in the past reduced or ceased, and could at any time in the future reduce or cease, to purchase products from us, thereby harming our operating results and business.*

Our relationships with the leading printer and copier industry companies are one of our most important assets. We have established relationships with leading printer and copier industry companies, including Canon, Seiko Epson, Fuji Xerox, Kodak, Konica Minolta, Kyocera Document Solutions, Landa, OKI Data, Ricoh, Sharp, Toshiba, and Xerox. These relationships are based on business relationships that have been established over time. Our agreements generally do not require them to make any future purchases from us as of December 31, 2016. They are generally free to purchase and offer products from our competitors, or build their own products for sale to the end customer, or cease purchasing our products at any time, for any reason, or no reason.

Fiery Self Serve is our self-service and payment solution that is sold to Canon, FedEx Office, Konica Minolta, Ricoh, Staples,, and Xerox. Fiery Self Serve is also marketed to college campuses and libraries.

Our proofing products are sold primarily to authorized distributors, dealers, and resellers who in turn sell the solutions to end users either stand-alone or bundled with other solutions they offer. Primary customers with whom we have established distribution agreements include Canon, Xerox, and Heidelberg. There can be no assurance that we will continue to successfully distribute our products through these channels.

Growth and Expansion Strategies

The growth and expansion of our revenue will be derived from (i) product innovation through internal development efforts or business acquisition, (ii) increasing market coverage through internal efforts or business acquisition, (iii) expanding the addressable market, and (iv) establishing enterprise coherence and leveraging industry standardization.

Product Innovation. We achieve product innovation through internal research and development efforts, as well as by acquiring businesses with technology that is synergistic with our product lines and may be attractive to our customers. We expect to expand and improve our offerings of new generations of Industrial Inkjet products, including super-wide and wide format, textile, label and packaging, and ceramic tile decoration industrial digital inkjet printers. We expect to expand and improve our Productivity Software offerings, including new product lines related to digital printing, graphic arts, fulfillment systems, cross-media marketing, image personalization, workflow, packaging, 3D textile design, and print management.

We have established relationships with many leading distribution companies in the graphic arts and commercial print industries such as Nazdar, 3M, and Veritiv, as well as significant printer manufacturing companies including Xerox, Ricoh, Canon, and Konica Minolta. We have also established global relationships with many of the leading print providers, such as R.R. Donnelley, Donnelley Financial Solutions, FedEx Office, and Staples. These direct sales relationships, along with dealer arrangements, are important for our understanding of the end markets for our products and serve as a source of future product development ideas. In many cases, our products are customized for the needs of large customers, yet maintain the common intuitive interfaces that we are known for around the world.

The development of our *Productivity Suite* also provides tools to facilitate customer revenue growth, efficient scheduling, and optimization of processes, equipment, and personnel. Customers are provided the financial and technical flexibility to deploy locally within their business or to be hosted in the cloud.

Increasing Market Coverage. We are increasing our market coverage through penetration of our sales and distribution networks, expansion into emerging markets in China, India, Latin America and Asia Pacific ("APAC"), and acquisitions that are synergistic with our other businesses such as the Rialco and Optitex acquisitions.

Expanding the Addressable Market. We are expanding our addressable market by extending into new markets within each of our operating segments such as textile digital inkjet printing, textile 3D design, ceramic tile decoration, thermoplastic pre-decoration, image personalization, imposition solutions, various cloud-based software solutions, self-service and payment solutions, and mobile printing. Further growth in the addressable markets for Industrial Inkjet, Productivity Software, and Fiery has been driven by our development of an integrated VUTEk / Fiery / Productivity Software production workflow.

Establish Enterprise Coherence and Leverage Industry Standardization. Our goal is to offer best of breed solutions that are interoperable and conform to open standards, which will allow customers to configure the most efficient solution for their business by establishing enterprise coherence and leveraging industry standardization.

We establish coherence across our product lines by designing products and platforms that provide a consistent "look and feel" to the end user. Cross-product coherence creates higher productivity levels as a result of shortened learning curves. The integrated coherence that end users can achieve using our products for all of their digital printing and imaging needs leads to a lower total cost of ownership. Open architecture utilizing industry-established standards to provide interoperability across a range of digital printing devices and software applications ultimately provides end users with more choice and flexibility in their selection of products. For example, integration between our cloud-based Digital StoreFront application, our Pace business process automation application, and our Fiery XF Production Color RIP including integration to our Fiery or VUTEk product lines, is achieved by leveraging the industry standard Job Definition Format. Our Productivity Suite has taken this integration further through end-to-end automation including certified workflows and synchronized releases across multiple products consisting of our Packaging Suite, Corrugated Packaging Suite, Enterprise Commercial Print Suite, Publication Print Suite, Mid-market Print Suite, Quick Print Suite, and Value Added Products.

Recent Business Acquisitions. We achieve product innovation through internal research and development efforts, as well as by acquiring businesses with technology that is synergistic with our product lines and may be attractive to our customers. We also acquire businesses to expand our market coverage and customer base. The impact of our business acquisitions on product innovation, market coverage, and addressable market during 2016, 2015, and 2014 is summarized as follows:

Year	Acquired Business	Acquired Product Line or Customer Base
2016	Rialco Limited ("Rialco")	Dye powders and color products for digital printing and industrial manufacturing
	Optitex Ltd. ("Optitex")	Integrated 3D CAD software
2015	Reggiani Macchine SpA ("Reggiani")	Textile digital inkjet printers
	Matan Digital Printers (2001) Ltd. ("Matan")	Super-wide format digital inkjet printers
	Corrugated Technologies, Inc. ("CTI")	Corrugated packaging software
	Shuttleworth Business Systems Limited and CDM Solutions Limited (collectively, "Shuttleworth")	European customer base
2014	SmartLinc, Inc. ("SmartLinc")	Shipping and logistics automation software
	Rhapso S.A. ("Rhapso")	French customer base and corrugated packaging software
	DirectSmile GmbH ("DirectSmile")	Image personalization, cross media marketing, variable data printing
	DiMS! organizing print BV ("DIMS")	Multilingual, and multi-national print and packaging companies with a large European installed base

We will continue to be acquisitive in the future in an opportunistic way supporting our product innovation, market coverage, and total addressable market expansion strategy.

Backlog

Although we obtain firm purchase orders from our significant printer manufacturer customers in our Fiery operating segment, these customers typically do not issue such purchase orders until 30 to 90 days before shipment. The non-linear nature of our Industrial Inkjet and Productivity Software operating segments results in customer contracts and purchase orders that are not shipped at the end of the year, which are not material and are not a meaningful indicator of future business prospects.

Significant Relationships

We have established and continue to build and expand relationships with the leading printer manufacturers and distributors of digital printing technology to benefit from their products, distribution channels, and marketing resources. Our customers include domestic and international manufacturers, distributors, and sellers of digital copiers. We work closely with the leading printer manufacturers to develop solutions that incorporate leading technology and work optimally in conjunction with their products. The top revenue-generating printer manufacturers, in alphabetical order, that we sold products to in 2016 were Canon, Seiko Epson, Fuji Xerox, Konica Minolta, Kyocera Document Solutions, Landa, OKI Data, Ricoh, RISO Global Network, Sharp, Toshiba, and Xerox. Because sales of our printer and copier-related products constitute a significant portion of our Fiery revenue and there are a limited number of printer manufacturers producing copiers and printers in sufficient volume to be attractive customers for us, we expect to continue to depend on a relatively small number of printer manufacturers for a significant portion of our revenue in future periods. Revenue from the leading printer manufacturers was 28%, 33%, and 33% during 2016, 2015, and 2014, respectively. Although end customer and reseller channel preference for Fiery products drives demand, most Fiery revenue relies on the leading printer manufacturer / distributors to integrate Fiery technology into the design and development of their print engines. Accordingly, if we experience reduced sales or lose an important printer manufacturing customer, we will have difficulty replacing the revenue with sales to new or existing customers.

We customarily enter into development and distribution agreements with our significant printer manufacturer customers. These agreements can be terminated under a range of circumstances and often on relatively short notice. The circumstances under which an agreement can be terminated vary from agreement to agreement and there can be no assurance that these significant printer manufacturers will continue to purchase products from us in the future, despite such agreements. Our agreements generally do not commit such customers to make future purchases from us. They could decline to purchase products from us in the future and could purchase and offer products from our competitors, or develop their own products for sale to the end customer. We recognize the importance of, and strive to maintain, our relationships with the leading printer manufacturers. Relationships with these companies are affected by a number of factors including, among others: competition from other suppliers, competition from their own internal development efforts, and changes in general economic, competitive, or market conditions including changes in demand for our products, changes in demand for the printer manufacturers' products, industry consolidation, or fluctuations in currency exchange rates. There can be no assurance that we will continue to maintain or build the relationships we have developed to date. See Item 1A: Risk Factors—*We do not typically have long-term purchase commitments with the printer manufacturer customers that purchase our Fiery DFE and software solutions. They have in the past reduced or ceased, and could at any time in the future reduce or cease, to purchase products from us, thereby harming our operating results and business.*

We have a continuing relationship pursuant to a license agreement with Adobe Systems, Inc. ("Adobe"). We license PostScript® software from Adobe for use in many of our Fiery solutions under the OEM Distribution and License Agreement entered into in September 2005, as amended from time to time. Under our agreement with Adobe, we have a non-exclusive, non-transferable license to use the Adobe deliverables (including any software, development tools, utilities, software development kits, fonts, drivers, documentation, or related materials). The scope of additional licensing terms varies depending on the type of Adobe deliverable. Our current agreement with Adobe was renewed on April 1, 2013 through March 31, 2018. The agreement can be terminated by either party upon 120 days prior written notice. All royalties due to Adobe under the agreement are payable within 45 days after the end of each calendar quarter.

Each Fiery solution requires page description language software provided by Adobe, which is a leader in providing page description software. Adobe's PostScript® software is widely used to manage the geometry, shape, and typography of hard copy documents. Adobe can terminate our current PostScript® software license agreement without cause. Although to date we have successfully obtained licenses to use Adobe's PostScript® software when required, Adobe is not required to, and we cannot be certain that Adobe will, grant future licenses to Adobe PostScript® software on reasonable terms, in a timely manner, or at all. In addition, to obtain licenses from Adobe, Adobe requires that we obtain quality assurance approvals from them for our products that use Adobe software. If Adobe does not grant us such licenses or approvals, if the Adobe licenses are terminated, or if our relationship with Adobe is otherwise materially impaired, we would likely be unable to sell products that incorporate Adobe PostScript® software. If that occurred, we would have to license, acquire, develop, or re-establish our own competing software as a viable alternative for Adobe PostScript ® software and our financial condition and results of operations could be significantly harmed for a period of time. See Item 1A: Risk Factors—*We license software used in most of our Fiery products and certain Productivity Software products from Adobe and the loss of these licenses would prevent shipment of these products.*

Our industrial inkjet printers require inkjet print heads that are manufactured by a limited number of suppliers. If we experience difficulty obtaining print heads, our inkjet printer production would be limited. In addition, we manufacture UV curable and ceramic digital ink for use in our printers and rely on a limited number of suppliers for certain pigments used in our ink. Our ink sales would decline significantly if we were unable to obtain the pigments when needed. See Item 1A: Risk Factors—*We depend on a limited group of suppliers for key components in our products. The loss of any of these suppliers, the inability of any of these suppliers to meet our requirements, or delays or shortages of supply of these components could adversely affect our business.*

Human Resources

As of December 31, 2016, we employed 3,235 full time employees. Approximately 950 were in sales and marketing (including 398 in customer service), 418 were in general and administrative, 658 were in manufacturing, and 1,209 were in research and development. Of the total number of employees, 1,531 employees were located in the Americas (primarily the U.S. and Brazil) and 1,704 were located outside of the Americas.

Research and Development

Research and development expense was $151.2, $141.4, and $134.7 million for the years ended December 31, 2016, 2015, and 2014, respectively. As of December 31, 2016, 1,209 of our 3,235 full-time employees were involved in research and development. We believe that development of new products and enhancement of existing products are essential to our continued success. We intend to continue to devote substantial resources to research and new product development. We expect to continue to make significant expenditures to support research and development in the foreseeable future.

New platforms and ink formulations will continue to be developed for Industrial Inkjet print technologies and ceramic tile decoration as the industry accelerates its transition from analog to digital technology, from solvent-based printing to UV curable ink printing, and adopts digital textile printing due to the growth of "fast fashion." We are developing new software applications designed to maximize work flow efficiencies and meet the needs of graphic arts and commercial print professions, including business process automation, web-to-print, e-commerce, cross-media marketing, imposition, proofing solutions, and 3D textile CAD applications. We are developing products to support additional printing devices including high-end color copiers and multi-functional devices. We have research and development sites in 15 U.S. locations, as well as in India, Europe, Israel, the United Kingdom ("U.K."), Brazil, Canada, New Zealand, China, Australia, and Japan. Substantial additional expense is required to complete and bring to market products that are currently under development.

Manufacturing

We are leveraging efficiencies in our worldwide digital inkjet printer manufacturing operations by centralizing super wide-format textile digital inkjet printer production in Italy and transferring production of super wide-format roll-to-roll digital inkjet printers to Israel to leverage the lower cost platform that Matan provides.

We utilize subcontractors to manufacture our Fiery products and, to a lesser extent, our super-wide and wide format industrial digital inkjet printers. These subcontractors work closely with us to promote low cost and high quality while manufacturing our products. Subcontractors purchase components needed for our products from third parties. We are dependent on the ability of our subcontractors to produce the products we sell. Although we supervise our subcontractors, there can be no assurance that such subcontractors will perform efficiently or effectively. We have outsourced our Fiery production with Avnet, Inc. ("Avnet"), label and packaging digital inkjet printer production to Roberts Tool Company ("Roberts"), and formulation of textile ink to third party branded suppliers, with the exception of reactive dye ink.

Should our subcontractors experience inability or unwillingness to manufacture or deliver our products, then our business, financial condition, and operations could be harmed. Since we generally do not maintain long-term agreements with our subcontractors and such agreements may be terminated with relatively short notice, any of our subcontractors could terminate their relationship with us and/or enter into agreements with our competitors that might restrict or prohibit them from manufacturing our products or could otherwise lead to an inability or unwillingness to fill our orders in a timely manner or at all. See Item 1A: Risk Factors—*We are dependent on a limited number of subcontractors, with whom we do not have long-term contracts, to manufacture and deliver products to our customers. The loss of any of these subcontractors could adversely affect our business.*

Our VUTEk super-wide format industrial digital inkjet printers are primarily manufactured in a single location in our Meredith, New Hampshire facility. In 2016, we transferred VUTEk roll-to-roll printer production to our Rosh Ha'Ayin, Israel, facility, our FabriVu textile digital inkjet printer production to our Bergamo, Italy, facility, and certain wide format industrial digital inkjet printers to our Castellon, Spain, facility.

We have encountered difficulties in hiring and retaining adequate skilled labor and management because Meredith is not located in a major metropolitan area. In 2016, we entered into a six-year lease with Bank of Tokyo—Mitsubishi UFJ Leasing & Finance LLC ("BTMU") whereby a 225,000 square foot manufacturing and warehouse facility is under construction in Manchester, New Hampshire, related to our super-wide and wide format industrial digital inkjet printer business in the Industrial Inkjet operating segment, which is scheduled to be completed in early 2018. The new manufacturing center will allow consolidation of operations into a single facility and include research & development, manufacturing, warehousing, training, and service for super-wide and wide format printers, along with worldwide sales and marketing management for our broader portfolio of industrial digital inkjet printers and presses.

Our Matan super-wide format industrial digital inkjet printers are manufactured in a single location in our Rosh Ha'Ayin, Israel facility. Our Reggiani textile industrial digital inkjet printers are manufactured in a single location in our Bergamo, Italy facility. Our Cretaprint ceramic tile decoration digital inkjet printers are manufactured in a single location in our Castellon, Spain facility. Our ceramic digital ink that is used in our ceramic tile decoration digital inkjet printers is formulated in a single location in our Ypsilanti, Michigan facility. Our reactive dye ink that is used in our textile digital inkjet printers is formulated in a single location in our Bedford, U.K., facility.

Most components used to manufacture our printers and ink are available from multiple suppliers, except for inkjet print heads, branded textile ink, and certain key ingredients (primarily pigments and photoinitiators) for our digital UV curable ink. Although typically in low volumes, many key components are sourced from single vendors. If we were unable to obtain the print heads currently used, we would be required to redesign our printers to use different print heads. If we were unable to obtain the branded textile ink or the pigments required for our digital UV curable ink, we would have to qualify other sources, if possible, or reformulate and test the new ink formulations. In our Industrial Inkjet facilities, we use hazardous materials to formulate digital UV curable and ceramic digital ink, as well as store internally formulated and third party ink. The storage, use, and disposal of those materials must meet the requirements of various environmental regulations.

See Item 1A: Risk Factors—*If we are not able to hire and retain skilled employees, we may not be able to develop and manufacture products, or meet demand for our products, in a timely fashion; We manufacture our super-wide format industrial digital inkjet printers and formulate our ceramic digital ink primarily in single locations. Any significant interruption in the manufacturing process at these facilities could adversely affect our business; We depend on a limited group of suppliers for key components in our products. The loss of any of these suppliers, the inability of any of these suppliers to meet our requirements, or delays or shortages of supply of these components, could adversely affect our business; and We may be subject to environmental-related liabilities due to our use of hazardous materials and solvents.*

Significant components necessary for manufacturing our products are obtained from a sole supplier or a limited group of suppliers. We depend largely on the following sole and limited source suppliers for our components and manufacturing services:

Supplier	Components
Intel	Central processing units ("CPUs"); chip sets
Toshiba	Application-specific integrated circuits ("ASIC") & inkjet print heads
Open Silicon	ASICs
Altera	ASICs & programmable devices
Tundra	Chip sets
Avnet	Contract manufacturing (Fiery)
Controls for Automation	Inkjet RFID (radio frequency identification)
Third party branded (DuPont, Huntsman, Sensient)	Textile ink
Ink pigment suppliers	UV curable ink pigments and photoinitiators
Columbia Tech	Inkjet sub-assemblies
Schneider Electric	Inkjet electrical sub-assemblies
Roberts	Contract manufacturing (digital inkjet printers)
SEI, S.p.A	Laser finishing and winders
Phoseon	LED lamps
Shenzhen Runtianzhi Tech	Inkjet sub-assemblies
Seiko	Inkjet print heads
Toshiba Tek	Inkjet print heads
Xaar	Inkjet print heads
Ricoh	Inkjet print heads
Kyocera Mita	Inkjet print heads
Progress Software	Monarch and Radius operating system
Printable	Digital StoreFront modular offering

We generally do not maintain long-term agreements with our component suppliers. We primarily conduct business with such suppliers largely on a purchase order basis. If any of our sole or limited source suppliers were unwilling or unable to supply us with the components for which we rely on them, we may be unable to continue manufacturing our products utilizing such components.

The absence of agreements with many of our suppliers also subjects us to pricing fluctuations, which is a factor we believe is partially offset by the desire of our suppliers to sell a high quantity of components. Many of our components are similar to those used in personal computers; consequently, the demand and price fluctuations of personal computer components could affect our component costs. In the event of unanticipated volatility in demand for our products, we may be unable to manufacture certain products in quantities sufficient to meet end user demand or we may hold excess quantities of inventory due to their long lead times. We maintain an inventory of components for which we are dependent on sole or limited source suppliers and of components with prices that fluctuate significantly. We cannot ensure that at any given time we will have sufficient inventory to enable us to meet demand for our products, which would harm our financial results. See Item 1A: Risk Factors—*We depend on a limited group of suppliers for key components in our products. The loss of any of these suppliers, the inability of any of these suppliers to meet our requirements, or delays or shortages of supply of these components could adversely affect our business.*

Competition

Competition in our markets is significant and involves rapidly changing technologies and frequent new product introductions. To maintain and improve our competitive position, we must continue to develop and introduce new products and features on a timely and cost effective basis to keep pace with the evolving needs of our customers. We believe the principal competitive factor affecting our markets is the market acceptance rates for new printing technology.

Industrial Inkjet

Our super-wide and wide format industrial digital inkjet printers compete with printers produced by Agfa, Domino, Durst, Canon, Hewlett-Packard ("HP"), Inca, Mimaki, Roland, and Mutoh throughout most of the world. There are Chinese and Korean printer manufacturers in the marketplace, but their products are typically sold in their domestic markets and are not perceived as viable alternatives in most other markets. Our UV curable ink is sold to users of our UV industrial inkjet printers, which have advanced quality control systems to ensure that correct color and non-expired ink is used to prevent damage to the printer. This results in most ink used in our printers being sold by us. While third party ink is available, its use may compromise the printer's quality control system and also voids most provisions of our printer warranty and service contracts.

Our Reggiani industrial digital inkjet textile printers compete with Dover, Durst, Mimaki, Roland, Epson, Konica Minolta, Robustelli, Atexco, Shenzhen Homer Textile, Kornit, Brother Industries, and Digital Graphics. Competitive digital inkjet textile printers are manufactured in Italy, Japan, China, and smaller emerging markets such as Indonesia. Key competitors driving digitalization of the textile printer market include Dover, Kornit, and Brother Industries. Reggiani also competes with other digital inkjet textile printing technologies including pre-washing and post-washing printing techniques.

Our Cretaprint ceramic tile decoration digital inkjet printer competes with ceramic tile decoration printers manufactured in Spain (KERAjet), Austria (Durst), Italy (Technoferrari, Projecta, Intesa, and System), China (Flora, Hope, Meijia, and Teckwin), and smaller emerging competition in other markets such as Indonesia. The ceramic tile industry is experiencing an ongoing relocation from southern Europe to the emerging markets of China, India, Brazil, and Indonesia. Competition in the Chinese market consists of small Chinese ceramic tile decoration digital inkjet printers and European manufacturers that are reducing prices to gain market share. In addition to our facility in Spain, we operate a Cretaprint sales and support center in Foshan, Guangdong, China, which is home to the largest concentration of ceramic tile manufacturers in China.

Productivity Software

Our Productivity Software operating segment, which includes our business process automation, cloud-based order entry and order management systems, cross media marketing, and imposition solution systems faces competition from software application vendors that specifically target the printing industry. These vendors are typically small, privately-owned companies. We also face competition from larger vendors that currently offer, or are seeking to develop, business process automation printing products including HP, Epicor, and SAP. We face competition from Oracle, SAP, Kiwiplan, and Heidelberg in the packaging software market.

Our Optitex 3D CAD software competes with Lectra, Assyst, CLO, Browzwear, and Gerber. Optitex provides 2D CAD design and 3D CAD visualization in the same application. Therefore, the CAD information and the 3D information are tightly integrated. Furthermore, the incremental learning curve from using 2D to using 3D is minimal.

Fiery

The principal competitive factors affecting the market for our Fiery solutions include customer service and support, product reputation, quality, performance, price, and product features such as functionality, scalability, ease of use, and ability to interface with products produced by the significant printer manufacturers.

Although we have direct relationships with each of the leading printer manufacturers and work closely with them to integrate Fiery DFE and software technology into the design and development of their print engines to maximize their quality and capability, our primary competitors for stand-alone color DFEs, embedded DFEs, and design-licensed solutions are these same leading printer manufacturing companies. They each maintain substantial investments in research and development. Some of this investment is targeted at integrating products and technology that we have designed and some of this investment is targeted at developing products and technology that compete with our Fiery brand. We are the largest third party DFE developer, although our market compared with DFEs developed internally by the leading printer manufacturers is small. We believe that our advantages include continuously advancing technology, short time-to-market, brand recognition, end user loyalty, sizable installed base, number of products supported, price driven by lower development costs, and market knowledge. We intend to continue to develop new DFEs with capabilities that meet the changing needs of the printer manufacturers' product development roadmaps. Although we do not directly control the distribution channels, we provide a variety of features as well as unique "look and feel" to the printer manufacturers' products to differentiate our customers' products from those of their competitors. Ultimately, we believe that end customer and reseller channel preference for the Fiery DFE and software solutions drives demand for Fiery products through the printer manufacturers.

Intellectual Property Rights

We rely on a combination of patent, copyright, trademark, and trade secret laws; non-disclosure agreements; and other contractual provisions to establish, maintain, and protect our intellectual property rights. Although we believe that our intellectual property rights are important to our business, no single patent, copyright, trademark, or trade secret is solely responsible for the development and manufacturing of our products.

We are currently pursuing patent applications in the U.S. and certain foreign jurisdictions to protect various inventions. Over time, we have accumulated a portfolio of patents issued in these jurisdictions. We own or have rights to the copyrights to the software code in our products and the rights to the trademarks under which our products are marketed. We have registered certain trademarks in the U.S. and certain foreign jurisdictions and will continue to evaluate the registration of additional trademarks as appropriate.

Certain of our products include intellectual property licensed from our customers. We have also granted and may continue to grant licenses to our intellectual property, when and as we deem appropriate. For a discussion of risks relating to our intellectual property, see Item 1A: Risk Factors—*We may be unable to adequately protect our proprietary information and may incur expenses to defend our proprietary information.*

Financial Information about Foreign and Domestic Operations and Export Sales

See Note 14—Segment Information, Geographic Regions, and Major Customers and Note 11—Income Taxes of the Notes to Consolidated Financial Statements. See also Item 1A: Risk Factors—*We face risks from our international operations* and *We face risks from currency fluctuations.*

Item 1A: Risk Factors

The market for our super-wide and wide format industrial digital inkjet printers is extremely competitive.

Our super-wide and wide format industrial digital inkjet products compete against several companies that market industrial digital inkjet printing systems based on electrostatic, drop-on-demand, and continuous drop-on-demand inkjet, and other technologies and printers utilizing UV curable ink including Agfa, Domino, Durst, Canon, HP, Inca, Mimaki, Roland, and Mutoh. Certain competitors have greater resources to develop new products and technologies and market those products, as well as acquire or develop critical components at lower costs, which would provide them with a competitive advantage. They could also exert downward pressure on product pricing to gain market share.

Reggiani industrial digital inkjet textile printers address the full scope of advanced textile printing with versatile printers suitable for water-based dispersed, acid, pigment, and reactive dye printing inks. Our Reggiani textile printers compete with Dover, Durst, Mimaki, Roland, Epson, Konica Minolta, Robustelli, Atexco, Shenzhen Homer Textile, Kornit, Brother Industries, and Digital Graphics. Competitive digital inkjet textile printers are manufactured in Italy, Japan, China, and smaller emerging markets such as Indonesia. Reggiani also competes with other digital inkjet textile printing technologies including pre-washing and post-washing printing techniques.

The local competitors in the Chinese and Korean markets are developing, manufacturing, and selling inexpensive printers mainly to the local markets. Our ability to compete depends on factors both within and outside of our control, including the price, performance, and acceptance of our current printers and any products we develop in the future.

We also face competition from existing conventional super-wide and wide format digital inkjet printing methods, including screen printing and offset printing. Our competitors could develop new products, with existing or new technology, that could be more competitive in our market than our printers.

The market for our ceramic tile decoration digital inkjet printers is very competitive.

Our Cretaprint ceramic tile decoration digital inkjet printer competes with ceramic tile decoration printers manufactured in Spain, Austria, Italy, Brazil, China, and smaller emerging competitors in other markets such as Indonesia. The ceramic tile industry is experiencing an ongoing relocation from southern Europe to the emerging markets of China, India, Brazil, and Indonesia. Competition in the Chinese market consists of small Chinese ceramic tile decoration digital inkjet printers and European manufacturers that are reducing prices to gain market share. In addition to our facility in Spain, we operate a Cretaprint sales and support center in Foshan, Guangdong, China, which is home to the largest concentration of ceramic tile manufacturers in China.

Most ceramic tile decoration digital inkjet printer manufacturers have a background in analog equipment for ceramic tile plants and tile manufacturing facilities, while Durst and Flora entered the ceramic tile decoration market from the digital graphic arts business. Our ceramic tile decoration imaging competitors are a mix of large, medium, and small ceramic tile decoration printer manufacturers, which are primarily privately-owned. Our competitors could develop new products, with existing or new technology, that could be more competitive in our market than our ceramic tile decoration digital inkjet printers.

We face strong competition for printing supplies such as ink.

We compete with independent manufacturers in the ink market consisting of smaller vendors, as well as larger vendors such as DuPont Digital Printing.

Our UV curable ink is sold to users of our super-wide and wide format UV industrial inkjet printers, which have advanced quality control systems to ensure that correct color and non-expired ink is used to prevent damage to the printer. This results in most ink used in our super-wide and wide format printers being sold by us. While third party ink is available, its use compromises the printer's quality control system and also voids most provisions of our printer warranty and service contracts. Nevertheless, we cannot guarantee we will be able to remain the principal ink supplier for our printers. We could experience an overall price reduction within the ink market, which would also adversely affect our gross profit.

We sell third party branded textile ink to users of our textile digital inkjet printer. We offer a strong value proposition with our third party branded inks, but cannot guarantee that we will be the primary supplier of textile digital ink to the users of our printers.

Our solvent-based ceramic digital ink is sold to users of our ceramic tile decoration digital inkjet printers. The ceramic ink market is generally an open system for inks and therefore customers may change between suppliers. Although we are focused on developing this recurring revenue stream, we cannot guarantee that we will become the primary supplier of ceramic digital ink to the users of our printers.

If the market for digital textile printing does not develop as we anticipate, we may not be able to grow our inkjet textile printing business.

If the global printed textile industry does not broadly accept digital printing as an alternative to either analog printing or single color (dyed) garments, our revenue may not grow as quickly as expected. Widespread adoption of digital textile printing depends on the willingness and ability of businesses in the printed textile industry to replace their existing analog printing systems and single color (dyed) garments with digital printing systems. The adoption of digital textile printing is dependent to some extent on the growth of "fast fashion."

A key element of our digital inkjet textile printing growth strategy is to market digital inkjet printing systems to contract printers that serve major textile brand owners and fashion designers. If leading textile brand owners and fashion designers are not convinced of the benefits of digital inkjet textile printing or if there is a significant reduction in the popularity of printed textiles, especially those that are customized or personalized, among the consumers to whom such brand owners and fashion designers cater, or if these businesses decide that digital inkjet printing processes are less reliable, less cost-effective, lower quality, or otherwise less suitable for their commercial needs than analog printing processes and single color (dyed) garments, then the market for digital textile printing may not develop as we anticipate and we may not be able to grow our inkjet textile printing business.

We face strong competition in our Productivity Software operating segment.

Our Productivity Software operating segment, which includes our business process automation, cloud-based order entry and order management, cross media marketing, and imposition solution systems faces competition from software application vendors that specifically target the printing industry. These vendors are typically small, privately-owned companies. We also face competition from larger vendors that currently offer, or are seeking to develop, business process automation printing products including HP, Epicor, and SAP. We face competition from Oracle, SAP, SolarSoft, and Heidelberg in the packaging software market. Our Optitex 3D CAD software competes with Lectra, Assyst, CLO, Browzwear, and Gerber. There can be no assurance that we will continue to advance our technology and products or compete effectively against other companies' product offerings.

We do not typically have long-term purchase commitments with the printer manufacturer customers that purchase our Fiery DFE and software solutions. They have in the past reduced or ceased, and could at any time in the future reduce or cease, to purchase products from us, thereby harming our operating results and business.

Although end customer and reseller channel preference for Fiery DFE and software solutions drives demand, most Fiery revenue relies on printer manufacturers to integrate Fiery technology into the design and development of their print engines. We have established direct relationships with several leading printer manufacturers and work closely with them to design, develop, and integrate Fiery DFE and software technology to maximize the capability of their print engines. These manufacturers act as distributors and sell Fiery products to end customers through reseller channels. A significant portion of our revenue is, and has been, generated by sales of our Fiery DFE and software solutions to a relatively small number of leading printer manufacturers. Our reliance on revenue from the leading printer manufacturers was 28%, 33%, and 33% during 2016, 2015, and 2014, respectively. Because sales of our Fiery products constitute a significant portion of our revenue and there are a limited number of printer manufacturers producing printers in sufficient volume to be attractive customers for us, we expect that we will continue to depend on a relatively small number of printer manufacturers for a significant portion of our Fiery revenue in future periods. Accordingly, if we lose or experience reduced sales to one of these printer manufacturer customers, we will have difficulty replacing that revenue with sales to new or existing customers.

With the exception of certain minimum purchase obligations, we typically do not have long-term volume purchase contracts with our significant printer manufacturer customers, including Konica Minolta, Ricoh, and Canon, and they are not obligated to purchase products from us. Accordingly, our printer manufacturer customers could at any time reduce their purchases from us or cease purchasing our products altogether. For example, in 2016, one of our significant printer manufactures purchased less inventory from us and this reduction may continue into 2017, which could impact revenue from our Fiery segment. In the past, these printer manufacturer customers have elected to develop products on their own for sale to end customers, incorporated technologies developed by other companies into their products, and have directly sold third party competitive products, rather than rely solely or partially on our products. We expect that these printer manufacturer customers will continue to make such elections in the future.

Many of the products and technologies we are developing require that we coordinate development, quality testing, marketing, and other tasks with these printer manufacturers. We cannot control their development efforts or the timing of these efforts. We rely on these printer manufacturers to develop new printer and copier solutions, applications, and product enhancements that utilize our Fiery DFE technologies and software solutions in a timely and cost-effective manner. Our success in the DFE industry depends on the ability of these printer manufacturers to utilize our technologies to develop the right solutions with the right features to meet ever changing customer requirements and responding to emerging industry standards and other technological changes.

Because our printer manufacturer customers incorporate our products into products they manufacture and sell, any decline in demand for copiers or laser printers or any other negative developments affecting our major customers or the computer industry in general, including reduced end user demand, would likely harm our results of operations. Certain printer manufacturer customers have experienced serious financial difficulties in the past, which led to a decline in sales of our products. If any significant customers face such difficulties in the future, our operating results could be harmed through, among other things, decreased sales volume, write-off of accounts receivable, and write-off of inventories related to products we have manufactured for these customers' products.

Entry into new markets or distribution channels could result in higher operating expenses that may not be offset by increased revenue.

We continue to explore opportunities to develop or acquire additional product lines in new markets, such as print management business process automation software, document scanning solutions, textile digital ink, and industrial inkjet printers. We expect to continue to invest funds to develop new markets or distribution channels for these and additional new products and services, which will increase our operating expenses.

We do not know if we will be successful in developing these channels, or whether the market will accept any of our new products or services, or if we will generate sufficient revenue from these activities to offset the additional operating expenses we incur. Even if we are able to introduce new products or services, if customers do not accept these new products or services, or if we are not able to price such products or services competitively, our results of operations will likely be adversely affected.

Economic uncertainty has negatively affected our business in the past and may negatively affect our business in the future.

Our revenue and profitability depend significantly on the overall demand for information technology products that enable printing of digital data, which in turn depends on a variety of macro- and micro-economic conditions. In addition, revenue growth and profitability in our Industrial Inkjet operating segment depends on demand and spending for advertising and marketing products and programs, which also depends on a variety of macro-and micro-economic conditions.

Uncertainty about current global economic conditions, including Europe, poses a risk as our customers may delay purchases of our products in response to tighter credit, negative financial news, and/or declines in income or asset values. Any financial turmoil affecting the banking system and financial markets and the possibility that financial institutions may consolidate or terminate their activities have resulted in a tightening in the credit market, a low level of liquidity in many financial markets, and extreme volatility in fixed income, credit, currency, and equity markets. There could be a number of follow-on effects from a credit crisis on our business, including insolvency of key suppliers resulting in product delays; inability of customers and distributors to obtain credit to finance purchases of our products and/or customer and distributor insolvencies; increased difficulty in managing inventories; and other financial institutions negatively impacting our treasury operations.

Economic uncertainty is particularly acute in Europe and especially the "southern European" countries (i.e., Spain, Portugal, Italy, and Greece) and Ireland. We have no European sovereign debt investments. Our European debt investments consist of non-sovereign corporate debt securities of $28.0 million, which represents 14% of our corporate debt instruments (9% of our short-term investments) at December 31, 2016. European debt investments are with corporations domiciled in the northern and central European countries of Sweden, Netherlands, Norway, France, Switzerland, and the U.K. We do not have any short-term investments with corporations domiciled in the higher risk "southern European" countries (i.e., Italy, Spain, Greece, and Portugal) or Ireland. We believe that we do not have significant exposure with respect to our money market and corporate debt investments in Europe, although we do have some exposure due to the interdependencies among the European Union countries.

Since Europe is composed of varied countries and regional economies, our European risk profile is somewhat more diversified due to the varying economic conditions among the countries. Approximately 28% of our receivables are with European customers as of December 31, 2016. Of this amount, 26% of our European receivables (7% of consolidated net receivables) are in the higher risk southern European countries (mostly Spain, Portugal, and Italy), which are adequately reserved.

Our business, results of operations and financial condition may be negatively impacted by conditions abroad, including local economies, political environments, fluctuating foreign currencies and shifting regulatory schemes.

A significant amount of our revenue is generated from operations outside the U.S. Approximately $491.7 (50%), $408.9 (46%), and $352.0 (45%) million of revenue for the years ended December 31, 2016, 2015, and 2014, respectively, shipped to locations outside the Americas, primarily to Europe, Middle East, and Africa ("EMEA") and APAC. We expect that sales outside of the U.S. will continue to represent a significant portion of our total revenue. We maintain significant operations and acquire or manufacture many of our products and/or their components outside the U.S. Our future revenue, costs, and results of operations could be significantly affected by changes in each country's economic conditions, foreign currency exchange rates relative to the U.S. dollar, political conditions, trade protection measures, licensing requirements, local tax issues, capitalization, and other related legal matters. If our future revenue, costs, and results of operations are significantly affected by economic conditions abroad, our results of operations and financial condition could be negatively impacted. Specifically, the slowdown in China and other developing economies have negatively impacted, and may continue to negatively impact, our results of operations.

We face risks from currency fluctuations.

Given the significance of non-U.S. sales to our total revenue, we face a continuing risk from the fluctuation of the U.S. dollar versus foreign currencies. Although the majority of our receivables are invoiced and collected in U.S. dollars, we have exposure from non-U.S. dollar-denominated sales (consisting of the Euro, British pound sterling, Brazilian real, Chinese renminbi, Israeli shekel, Australian dollar, and New Zealand dollar). We have a substantial number of international employees, resulting in material operating expenses denominated in foreign currencies. We have exposure from non-U.S. dollar-denominated operating expenses in foreign countries (primarily the Euro, British pound sterling, Chinese renminbi, Israeli shekel, Japanese yen, Indian rupee, Brazilian real, and Australian dollar).

We can benefit from or be adversely affected by either a weaker or stronger U.S. dollar relative to major currencies worldwide with respect to our consolidated financial statements. Accordingly, we can benefit from a stronger U.S. dollar due to the corresponding reduction in our foreign operating expenses translated in U.S. dollars and at the same time we can be adversely affected by a stronger U.S. dollar due to the corresponding reduction in foreign revenue translated in U.S. dollars. We hedge our operating expense exposure in Indian rupees. The notional amount of our Indian rupee cash flow hedge was $3.2 million at December 31, 2016.

Forward contracts not designated as hedging instruments consist of hedges of Brazilian real, British pound sterling, Israeli shekel, Australian dollar, Japanese yen, Chinese renminbi, and Euro-denominated intercompany balances with notional amounts of $90.7 million; Brazilian real, British pound sterling, Australian dollar, Israeli shekel, and Euro-denominated trade receivables with notional amounts of $39.8 million; and hedges of British pounds sterling, Indian rupee, and Euro-denominated other net monetary assets with notional amounts of $28.2 million at December 31, 2016. These forward contracts are not designated for hedge accounting treatment since there is a natural offset for the remeasurement of the underlying foreign currency denominated asset or liability.

As of December 31, 2016, we had not entered into hedges against any other currency exposures, but we may consider hedging against movements in other currencies in the future. Our efforts to reduce risk from our international operations and from fluctuations in foreign currencies or interest rates may not be successful, which could harm our financial condition and operating results.

We face risks from our international operations.

We are subject to certain risks because of our international operations as follows:

- restrictions on our ability to access cash generated by international operations, especially in China and Brazil, due to restrictions on the repatriation of dividends, distribution of cash to shareholders outside of such countries, foreign exchange control, and other restrictions,
- security concerns, such as armed conflict and civil or military unrest, crime, political instability, and terrorist activity;
- customer credit risk, especially in emerging or economically challenged regions, with accompanying challenges to enforce our legal rights should collection issues arise.
- changes in governmental regulation, including labor regulations, and our inability or failure to obtain required approvals, permits, or registrations could harm our international and domestic sales and adversely affect our revenue, business, and operations,
- violations of governmental regulation, including labor regulations, could result in fines and penalties, including prohibiting us from exporting our products to one or more countries, and could materially adversely affect our business,
- international labor regulations may be substantially different than the regulations we are accustomed to in the U.S., which may negatively impact labor efficiency and workforce relations,

- trade legislation in either the U.S. or other countries, such as a change in the current tariff structures, export compliance laws, or other trade policies, could adversely affect our ability to sell or manufacture in international markets,
- adverse tax consequences, including imposition of withholding or other taxes on payments by subsidiaries, and
- some of our sales to international customers are made under export licenses that must be obtained from the U.S. Department of Commerce ("DOC") and certain transactions require prior approval of the DOC or other governmental agencies.

We incur additional legal compliance costs associated with our international operations and could become subject to legal penalties in foreign countries if we do not comply with local laws and regulations, which may be substantially different from those in the U.S. In many foreign countries, particularly those with developing economies, it may be common to engage in business practices that are prohibited by U.S. regulations such as the Foreign Corrupt Practices Act of 1977, as amended. Although we implement policies and procedures designed to ensure compliance with these laws, there can be no assurance that all of our employees, contractors, and agents, as well as outsourced business operations, including those based in or from countries where practices that violate such U.S. laws may be customary, will not take actions in violation of our policies. Furthermore, there can be no assurance that employees, contractors, and agents of acquired companies did not take actions in violation of such laws and regulations prior to the date they were acquired by us, although we perform due diligence procedures to endeavor to discover any such actions prior to the acquisition date.

We license software used in most of our Fiery products and certain Productivity Software products from Adobe and the loss of these licenses would prevent shipment of these products.

We are required to obtain separate licenses from Adobe for the right to use Adobe PostScript® software in each copier or printer model that uses a Fiery DFE, and other Adobe software for certain Productivity Software products. Although to date we have successfully obtained licenses to use Adobe PostScript® and other Adobe software when required, Adobe is not required to, and we cannot be certain that Adobe will, grant future licenses to Adobe PostScript® and other Adobe software on reasonable terms, in a timely manner, or at all. To obtain licenses from Adobe, Adobe requires that we obtain quality assurance approvals from them for our products that use Adobe software. Although to date we have successfully obtained such quality assurance approvals from Adobe, we cannot be certain they will grant us such approvals in the future. If Adobe does not grant us such licenses or approvals, if the Adobe licenses are terminated, or if our relationship is otherwise materially impaired, we would likely be unable to sell products that incorporate Adobe PostScript® or other Adobe software and our financial condition and results of operations would be significantly harmed.

We manufacture our super-wide and wide format industrial digital inkjet printers and formulate our ceramic digital ink primarily in single locations. Any significant interruption in the manufacturing process at these facilities could adversely affect our business.

Our VUTEk super-wide and wide format industrial digital inkjet printers are primarily manufactured in a single location in our Meredith, New Hampshire facility. In 2016, we transferred VUTEk roll-to-roll printer production to our Rosh Ha'Ayin, Israel, facility, our FabriVu textile digital inkjet printer production to our Bergamo, Italy, facility, and certain wide format industrial digital inkjet printers to our Castellon, Spain, facility.

Our Matan super-wide format industrial digital inkjet printers are manufactured in a single location in our Rosh Ha'Ayin, Israel facility. Our Reggiani industrial digital inkjet textile printers are manufactured in a single location in our Bergamo, Italy facility. Our Cretaprint ceramic tile decoration digital inkjet printers are manufactured in a single location in our Castellon, Spain facility. Our ceramic digital ink that is used in our ceramic tile decoration digital inkjet printers is formulated in a single location in our Ypsilanti, Michigan facility. We formulate our reactive dye ink that is used in our textile digital inkjet printers is formulated in a single location in our Bedford, U.K., facility. Any significant interruption in the manufacturing process at any of these facilities could affect the supply of our product, our ability to meet customer demand, and our ability to maintain market share.

We are developing contingency plans utilizing our manufacturing facilities in multiple locations and the capabilities of certain contract manufacturers in the event of a significant interruption in the manufacturing process at any of the aforementioned facilities. Until those plans are complete, disruptions in the manufacturing process at any of our sole source internal facilities could adversely affect our business.

We depend on a limited group of suppliers for key components in our products. The loss of any of these suppliers, the inability of any of these suppliers to meet our requirements, or delays or shortages of supply of these components, could adversely affect our business.

Certain components necessary for the manufacture of our products are obtained from a sole supplier or a limited group of suppliers. These include CPUs, chip sets, ASICs, and other related semiconductor components; inkjet print heads for our super-wide and wide format, textile, label and packaging, and ceramic tile decoration industrial digital inkjet printers; branded textile ink; and certain key ingredients (primarily pigments and photoinitiators) for our digital UV curable ink. We generally do not maintain long-term agreements with our component suppliers and conduct business with such suppliers largely on a purchase order basis. If we are unable to continue to procure these sole or limited sourced components from our current suppliers in the required quantities, we will have to qualify other sources, if possible, or redesign our products. If we were unable to obtain the branded textile ink or the pigments required for our digital UV curable ink, we would have to qualify other sources, if possible, or reformulate and test the new ink formulations. These suppliers may be concentrated within similar industries or geographic locations, which could potentially exacerbate these risks. We cannot provide assurance that other sources of these components exist or will be willing to supply us on reasonable terms or at all, or that we will be able to design around these components. Any unavailability, delays, or shortages of these components or any inability of our suppliers to meet our requirements, could harm our business.

Because the purchase of certain key components involves long lead times, in the event of unanticipated volatility in demand for our products, we have in the past been, and may in the future be, unable to manufacture certain products in a quantity sufficient to meet demand. Further, as has occurred in the past, in the event that anticipated demand does not materialize, we may hold excess quantities of inventory that could become obsolete. To meet projected demand, we maintain an inventory of components for which we are dependent on sole or limited source suppliers and components with prices that fluctuate significantly. As a result, we are subject to risk of inventory obsolescence, which could adversely affect our operating results and financial condition.

Market prices and availability of certain components, particularly memory subsystems and Intel-designed components, which collectively represent a substantial portion of the total manufactured cost of our products, have fluctuated significantly in the past. Such fluctuations could have a material adverse effect on our operating results and financial condition including reduced gross profit.

We are dependent on a limited number of subcontractors, with whom we generally do not have long-term contracts, to manufacture and deliver products to our customers. The loss of any of these subcontractors could adversely affect our business.

We subcontract with other companies to manufacture certain of our products and we generally do not have long-term agreements with these subcontractors. While we closely monitor our subcontractors' performance, we cannot be assured that such subcontractors will continue to manufacture our products in a timely and effective manner. In the past, a weakened economy led to the dissolution, bankruptcy, or consolidation of some of our subcontractors, which decreased the available number of subcontractors. If the available number of subcontractors were to decrease in the future, it is possible that we would not be able to secure appropriate subcontractors to fulfill our demand in a timely manner, or at all, particularly if demand for our products increases.

The existence of fewer subcontractors may reduce our negotiating leverage, thereby potentially resulting in higher product costs. Financial problems resulting in the inability of our subcontractors to make or ship our products, could harm our business, operating results, and financial condition. If we change subcontractors, we could experience delays in finding, qualifying, and commencing business with new subcontractors, which would result in delayed delivery of our products and potentially the cancellation of orders for our products.

We have outsourced our Fiery production with Avnet, label and packaging digital inkjet printer production with Roberts, and formulation of certain textile ink with third party branded suppliers. Certain Industrial Inkjet sub-assemblies are manufactured by subcontractors. Should our subcontractors experience any inability, or unwillingness, to manufacture or deliver our products, then our business, financial condition, and operations could be harmed. Since we generally do not maintain long-term agreements with our subcontractors, any of our subcontractors could enter into agreements with our competitors that might restrict or prohibit them from manufacturing our products or could otherwise lead to an inability to fill our orders in a timely manner. In such event, we may not be able to find suitable replacement subcontractors, in which case our financial condition and operations would likely be harmed.

We may face increased risk of inventory obsolescence, excess, or shortages related to our Industrial Inkjet printers and ink.

We procure raw materials and internally manufacture our super-wide and wide format, textile, and ceramic tile decoration industrial digital inkjet printers and formulate digital UV curable and ceramic digital ink based on our sales forecasts. If we do not accurately forecast demand for our products, we may produce or purchase excess inventory, which may result in our inventory becoming obsolete. We might not produce the correct mix of products to match actual demand if our sales forecast is not accurate, resulting in lost sales. If we have excess printers, ink, or other products, we may need to lower prices to stimulate demand.

Our ink products have a defined shelf life. If we do not sell the ink before the end of its shelf life, it will have to be written off. We have also experienced UV curable ink shortages in the past and may continue to experience such shortages in the future. UV curable ink shortages may require that we incur additional costs to respond to increased demand and overcome such shortages.

If we are not able to hire and retain skilled employees, we may not be able to develop and manufacture products, or meet demand for our products, in a timely fashion.

We depend on skilled employees, such as software and hardware engineers, quality assurance engineers, chemists, chemical engineers, and other technical professionals with specialized skills. We are headquartered in the Silicon Valley and have research and development employees in facilities in 15 U.S. locations. We also have research and development employees in facilities in India, Europe, Israel, the U.K., Brazil, Canada, New Zealand, China, Australia, and Japan. Competition has historically been intense among companies hiring engineering and technical professionals. In times of professional labor imbalances, it has in the past and is likely in the future, to be difficult to locate and hire qualified engineers and technical professionals and to retain these employees. There are many technology companies located near our corporate offices in the Silicon Valley and our operations in India that may attempt to hire our employees.

Our VUTEk printers are manufactured at our Meredith, New Hampshire facility, which is not located in a major metropolitan area. We have encountered difficulties in hiring and retaining adequately skilled labor and management at this location. We have entered into a six-year lease with Bank of Tokyo—Mitsubishi UFJ Leasing & Finance LLC (“BTMU”) whereby a 225,000 square foot manufacturing and warehouse facility is under construction in Manchester, New Hampshire, related to our super-wide and wide format industrial digital inkjet printer business in the Industrial Inkjet operating segment, which is scheduled to be completed in early 2018.

The movement of our stock price may also impact our ability to hire and retain employees. If we do not offer competitive compensation, we may not be able to recruit or retain employees, which may have an adverse effect on our ability to develop products in a timely fashion, which could harm our business, financial condition, and operating results.

We rely on our distribution channels to ensure sales growth.

The leading printer manufacturers, which comprise the majority of the customer base in our Fiery operating segment, are typically large profitable customers with little credit risk to us. Our Productivity Software and Industrial Inkjet operating segments sell primarily through a direct sales force, augmented by some select distributors, to a broader base of customers than Fiery. Any interruption of of these distribution channels could negatively impact us in the future.

Growing market share in the Productivity Software and Industrial Inkjet operating segments increases the possibility that we will experience increased bad debt expense and increased accounts receivable.

Many of the Productivity Software and Industrial Inkjet customers are smaller and potentially less creditworthy. Our ceramic tile decoration digital inkjet customer base is primarily located in geographic regions, which have recently been subject to economic challenges including southern Europe (primarily Spain, Italy, and Portugal) and emerging markets in APAC. Furthermore, if we increase the percentage of Productivity Software and Industrial Inkjet products that are sold internationally, it may be challenging to enforce our legal rights should collection issues arise. Due to these and other factors, growing Industrial Inkjet and Productivity Software market share may cause us to experience an increase in bad debt expense and an increase in days sales outstanding ("DSOs").

DSOs increased during the year ended December 31, 2016, compared with December 31, 2015, primarily due to increased Industrial Inkjet and Productivity Software revenue as a percentage of consolidated revenue, sales with extended payment terms, and a non-linear sales cycle resulting in significant billings at the end of the quarter. Industrial Inkjet and Productivity Software were 72% of consolidated revenue during the year ended December 31, 2016, compared with 66% and 65% of consolidated revenue during the years ended December 31, 2015 and 2014, respectively. We calculate DSO by dividing net accounts receivable at the end of the quarter by revenue recognized during the quarter, multiplied by the total days in the quarter, which is a measure of the relationship between sales and accounts receivable.

Acquisitions may result in unanticipated accounting charges or otherwise adversely affect our results of operations and result in difficulties assimilating and integrating operations, personnel, technologies, products, and information systems of acquired businesses.

We seek to develop new technologies and products from both internal and external sources. We have also purchased companies and businesses for the primary purpose of acquiring their customer base. As part of this effort, we have in the past made, and will likely continue to make, acquisitions of other businesses.

Acquisitions involve numerous risks, such as:

- difficulties integrating operations, employees, technologies, or products, and the required focus of management attention, time, and effort to accomplish successful integration;
- risk of entering markets in which we have little or no prior experience, or entering markets where competitors have stronger market positions;
- possible write-downs of impaired assets;
- changes in the fair value of contingent consideration;
- possible restructuring of personnel or leased facilities;

- potential loss of key employees of the acquired company;
- possible overruns (compared to expectations) relative to the expense levels and cash outflows of the acquired business;
- adverse reactions by customers, suppliers, or parties transacting business with the acquired company or us;
- risk of negatively impacting stock analyst ratings;
- potential litigation or any administrative proceedings arising from prior transactions or prior actions of the acquired company;
- inability to protect or secure technology rights;
- possible overruns of direct acquisition and integration costs; and
- equity securities issued in connection with acquisitions will be dilutive to our existing stockholders unless mitigating actions are taken such as treasury stock purchases; alternatively, acquisitions made entirely or partially for cash will reduce cash reserves.

Mergers and acquisitions of companies are inherently risky. We cannot provide assurance that previous or future acquisitions will be successful or will not harm our business, operating results, financial condition, or stock price.

We face risks relating to the potential impairment of goodwill and long-lived assets.

We complete a review of the carrying value of our goodwill and long-lived assets annually and, based on a combination of factors (i.e., triggering events), we may be required to perform an interim analysis.

Given the uncertainty of the economic environment and its potential impact on our business, there can be no assurance that our estimates and assumptions regarding the duration of any economic downturn, or the period or strength of any subsequent recovery, made for purposes of our goodwill impairment testing at December 31, 2016 will prove to be accurate predictions of the future. If our assumptions regarding forecasted revenue or gross profit rates are not achieved, we may be required to record additional goodwill impairment charges in future periods relating to any of our reporting units, whether in connection with the next annual impairment testing in the fourth quarter of 2017 or prior to that, if an interim triggering event were to occur. It is not possible to determine if any such future impairment charge would result or, if it does, whether such charge would be material. No foreshadowing events have occurred as of December 31, 2016.

We are subject to numerous federal, state, and foreign employment laws and may face claims in the future under such laws.

We are subject to numerous federal, state, and foreign employment laws and from time to time face claims by our employees and former employees under such laws. There are no material claims pending or threatened against us under federal, state, or foreign employment laws, but we cannot be sure that material claims under such laws will not be made in the future against us, nor can we predict the likely impact of any such claims on us, or that, if asserted, we would be able to successfully resolve any such claims without incurring significant expense.

We may be unable to adequately protect our proprietary information and may incur expenses to defend our proprietary information.

We rely on copyright, patent, trademark, and trade secret protection, in addition to nondisclosure agreements, licensing, and cross-licensing arrangements to establish, maintain, and protect our intellectual property rights, all of which afford only limited protection. We have patents and pending patent applications in the U.S. and various foreign countries. There can be no assurance that patents will issue from our pending applications or from any future applications, or that, if issued, any claims allowed will be sufficiently broad to protect our technology. Any failure to adequately protect our proprietary information could harm our financial condition and operating results. We cannot be certain that any patents that have been, or may in the future be issued to us, or which we license from third parties, or any other proprietary rights will not be challenged, invalidated, or circumvented. In addition, we cannot be certain that any rights granted to us under any patents, licenses, or other proprietary rights will provide adequate protection of our proprietary information.

Many countries in which we derive revenue do not have comprehensive and highly developed legal systems, particularly with respect to the protection of intellectual property rights, which, among other things, can result in a prevalence of infringing products and counterfeit goods in certain countries, which could harm our business and reputation.

As different areas of our business change or mature, from time to time we evaluate our patent portfolio and decide to either pursue or not pursue specific patents and patent applications related to such areas. Choosing not to pursue certain patents, patentable applications, and failing to file applications for potentially patentable inventions, may harm our business by, among other things, enabling our competitors to more effectively compete with us, reducing potential claims we can bring against third parties for patent infringement, and limiting our potential defenses to intellectual property claims brought by third parties.

Litigation has been, and may continue to be, necessary to defend and enforce our proprietary rights. Such litigation, whether or not concluded successfully, could involve significant expense and the diversion of our attention and other resources, which could harm our financial condition and operating results.

We face risks from third party claims of infringement and potential litigation.

Third parties have claimed in the past, and may claim in the future, that our products infringe, or may infringe, their proprietary rights. Such claims have resulted in lengthy and expensive litigation in the past and could have a similar result in the future. Such claims and any related litigation, whether or not we are successful in the litigation, could result in substantial costs and diversion of our resources, which could harm our financial condition and operating results. Although we may seek licenses from third parties covering intellectual property that we are allegedly infringing, we cannot assure that any such licenses could be obtained on acceptable terms, if at all.

We may be subject to risk of loss due to fire because certain materials we use in our ink formulation process are flammable.

We use flammable materials in the digital UV curable and ceramic digital ink formulation process; therefore, we may be subject to risk of loss resulting from fire. The risk of fire associated with these materials cannot be completely eliminated. We own certain facilities that manufacture or warehouse our ink, which increases our exposure to such risk. We maintain insurance policies to cover losses caused by fire, including business interruption insurance. If one or more of these facilities is damaged or otherwise ceases operations as a result of fire, it would reduce our digital UV curable and ceramic digital ink manufacturing capacity, which may reduce revenue and adversely affect our business.

The location and concentration of our facilities subjects us to risk of earthquakes, floods, or other natural disasters.

Our corporate headquarters, including a significant portion of our research and development facilities, are located in the San Francisco Bay Area, which is known for seismic activity. This area has also experienced flooding in the past. Many of the components necessary for our products are purchased from suppliers based in areas that are subject to risk from natural disasters including the San Francisco Bay Area, China, and Japan.

A significant natural disaster, such as an earthquake, flood, tsunami, hurricane, typhoon, or other business interruptions due, for example, to power shortages and other interruptions could harm our business, financial condition, and operating results.

We may be subject to environmental-related liabilities due to our use of hazardous materials and solvents.

Our business operations involve the use of certain hazardous materials at eight locations. We formulate UV curable, reactive dye, and ceramic ink at four locations and store UV curable, ceramic, solvent, and thermoforming ink, as well as a variety of textile ink including dye sublimation, pigmented, reactive dye, acid dye, and water-based dispersed printing ink at eight locations. We launched internal formulation and marketing of ceramic solvent-based ink during 2014 at our facility in Ypsilanti, Michigan. The solvents used in ceramic digital ink formulation have low volatility by design. As a result, ceramic digital ink poses less environmental risk compared with true solvent ink. We launched internal formulation of reactive dye ink during 2016 at our facility in Bedford, U.K. Reactive dye is a water-based dye.

The hazardous materials and solvents that we use are subject to various governmental regulations relating to their transfer, handling, packaging, use, and disposal. We store ink at warehouses worldwide, including Europe, China, Israel, the U.K., and the U.S., and shipping companies distribute ink at our direction. We face potential liability for problems such as large spills or fires that may arise at ink manufacturing locations. While we customarily obtain insurance coverage typical for this kind of risk, such insurance may not be sufficient. If we fail to comply with these laws or an accident involving our ink waste or chemicals occurs, or if our insurance coverage is not sufficient, then our business and financial results could be harmed.

Future sales of our products could be limited if we do not comply with current and future environmental and chemical content regulations.

We believe that our products are currently compliant with RoHS, WEEE, REACH, and other regulations for the European Union as well as with China RoHS and other applicable international, U.S., state, and local environmental regulations. We monitor environmental compliance regulations to ensure that our products are fully compliant prior to the implementation of any potential new requirements. However, new unforeseen legislation could require us to re-engineer our products, complete costly analyses, or perform supplier surveys, which could harm our business and negatively impact our financial results. We could also incur additional costs, sanctions, and liabilities in connection with non-compliant product recalls, regulatory fines, and exclusion of non-compliant products from certain markets.

Our products may contain defects, which are not discovered until after shipping, which could subject us to warranty claims in excess of our warranty reserves.

Our products consist of hardware and software developed by ourselves and others, which may contain undetected defects. We have in the past discovered software and hardware defects in certain of our products after their introduction, resulting in warranty expense and other expenses incurred in connection with rectifying such defects or, in certain circumstances, replacing the defective product, which may damage our relationships with our customers. Defects could be found in new versions of our products after commencement of commercial shipment and any such defects could result in a loss or delay in market acceptance of such products and thus harm our reputation and revenue. Defects in our products (including defects in licensed third party software) detected prior to new product releases could result in delays in the introduction of new products and the incurrence of additional expense, which could harm our operating results. We generally provide a twelve-month hardware limited warranty for certain Industrial Inkjet printers, which may cover both parts and labor. Our Fiery DFE limited warranty is 12 to 15 months.

Our standard warranties contain limits on damages and exclusions, including but not limited to alteration, modification, misuse, mishandling, and storage or operation in improper environments. While we recorded an accrual of $10.3 million at December 31, 2016, for estimated warranty costs that are estimable and probable, based on historical experience, we may incur additional costs of revenue and operating expenses if our warranty provision does not reflect adequately the cost to resolve or repair defects in our products or if our liability limitations are declared enforceable, which could harm our business, financial condition, and operating results.

Actual or perceived security vulnerabilities in our products could adversely affect our revenue.

Maintaining the security of our software and hardware products is an issue of critical importance to our customers and for us. There are individuals and groups who develop and deploy viruses, worms, and other malicious software programs that could attack our products. Although we take preventive measures to protect our products, and we have a response team that is notified of high risk malicious events, these procedures may not be sufficient to mitigate damage to our products. Actual or perceived security vulnerabilities in our products could lead some customers to seek to return products, reduce or delay future purchases, or purchase competitive products. Customers may also increase their expenditures to protect their computer systems from attack, which could delay or reduce purchases of our products. Any of these actions or responses by customers could adversely affect our revenue.

System failures, or system unavailability, could harm our business.

We rely on our network infrastructure, internal technology systems, and internal and external websites for our development, marketing, operational, support, and sales activities. Our hardware and software systems related to such activities are subject to damage from malicious code released into the internet through vulnerabilities in popular software programs. These systems are also subject to acts of vandalism and potential disruption by actions or inactions of third parties. Any event that causes failures or interruption in our hardware or software systems could harm our business, financial condition, and operating results.

Our stock price has been volatile historically and may continue to be volatile.

The market price for our common stock has been and may continue to be volatile. During the twelve months ended December 31, 2016, the price of our common stock as reported on The NASDAQ Global Select Market ranged from a low of $35.88 to a high of $50.09. We expect our stock price to be subject to fluctuations as a result of a variety of factors, including factors beyond our control. These factors include:

- actual or anticipated variations in our quarterly or annual operating results;
- ability to initiate or complete stock repurchase programs;
- announcements of technological innovations or new products or services by our competitors or by us;
- announcements relating to strategic relationships, acquisitions, or investments;
- announcements by our customers regarding their businesses or the products in which our products are included;
- changes in financial estimates or other statements by securities analysts;
- any failure to meet security analyst expectations;
- changes in the securities analysts’ rating of our securities;
- terrorist attacks and the affects of military engagements or natural disasters;
- commencement of litigation or adverse results of pending litigation;
- changes in the financial performance and/or market valuations of other software and high technology companies; and
- changes in general economic conditions.

Because of this volatility, we may fail to meet the expectations of our stockholders or of securities analysts from time to time and the trading price of our securities could decline as a result. The stock market has experienced significant price and volume fluctuations that have particularly affected the trading prices of equity securities of many high technology companies, impacted by the continuing uncertainty in our economy. These fluctuations have often been unrelated or disproportionate to the operating performance of these companies. Any negative change in the public's perception of high technology companies could depress our stock price regardless of our operating results.

The value of our investment portfolio is subject to interest rate volatility.

We maintain an investment portfolio of fixed income debt securities classified as available-for-sale securities. As a result, our investment portfolio is subject to counterparty risk and volatility if market interest rates fluctuate.

We attempt to limit our exposure to interest rate risk by investing in securities with maturities of less than three years; however, we may be unable to successfully limit our risk to interest rate fluctuations. This may cause volatility in our investment portfolio value.

We are partially self-insured for certain losses related to employee medical and dental coverage. Our self-insurance reserves may not be adequate to cover our medical and dental claim liabilities.

We are partially self-insured for certain losses related to employee medical and dental coverage, excluding employees covered by health maintenance organizations. We generally have an individual stop loss deductible of $125 thousand per enrollee unless specific exposures are separately insured. We have accrued a contingent liability of $1.5 million as of December 31, 2016, which is not discounted, based upon examination of historical trends, historical actuarial analysis, our claims experience, total plan enrollment (including employee contributions), population demographics, and other various estimates. Although we do not expect that we will ultimately pay claims significantly different from our estimates, self-insurance reserves, net income, and cash flows could be materially affected if future claims differ significantly from our historical trends and assumptions.

Our stock repurchase program could affect our stock price and add volatility.

In November 2015, our board of directors authorized $150 million for the repurchase of our outstanding common stock. This authorization expires December 31, 2018.

Any repurchases pursuant to our stock repurchase program could affect our stock price and add volatility. There can be no assurance that repurchases will be made at the best possible price. Potential risks and uncertainties also include, but are not necessarily limited to, the amount and timing of future stock repurchases and the origin of funds used for such repurchases. The existence of a stock repurchase program could also cause our stock price to be higher than it would be in the absence of such a program and could potentially reduce the market liquidity for our stock. Depending on market conditions and other factors, these repurchases may be commenced or suspended from time to time. Any such suspension could cause the market price of our stock to decline.

Our profitability may be affected by unanticipated changes in our tax provisions, the adoption of new U.S. or foreign tax legislation, or exposure to additional income tax liabilities.

We are subject to income taxes in the U.S. and many foreign countries. Intercompany transaction pricing can impact our tax liabilities. We are potentially subject to tax audits in various countries and tax authorities may disagree with our tax treatments, including intercompany pricing or other matters, and assess additional taxes. We regularly review the likely outcomes of these audits to determine whether our tax provisions are sufficient. However, there can be no assurance that we will accurately predict the outcomes of these audits, and the final assessments of these audits can have a material impact on our net income.

Our effective tax rate in the future may be impacted by changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities, changes in tax laws, new information discovered during the preparation of our tax returns, and enactment of U.S. and foreign tax legislative initiatives, such as proposals for fundamental tax reform in the United States ("U.S.") or multi-jurisdictional actions to address "base erosion and profit-shifting" by multinational companies. The Organisation for Economic Co-operation and Development, or OECD, issued a series of reports on October 5, 2015 recommending changes to numerous well-established tax principles. These recommendations, if adopted by various OECD countries in which we do business, could adversely affect our effective tax rate.

We may not have the ability to raise the funds necessary to settle conversions of our 0.75% Convertible Senior Notes due 2019 ("Notes") in cash, repay the Notes at maturity, or repurchase the Notes upon a fundamental change.

In September 2014, we completed a private placement of $345 million principal amount of Notes. Holders of the Notes will have the right to require us to repurchase all or a portion of their Notes upon the occurrence of a fundamental change at a repurchase price equal to 100% of the principal amount of the Notes to be repurchased, plus accrued and unpaid interest, if any, as described in Note 7—Convertible Senior Notes, Note Hedges, and Warrants of the Notes to Consolidated Financial Statements.

Upon conversion of the Notes, we will be required to make conversion payments in cash, unless we elect to deliver solely shares of our common stock to settle such conversion, as described in Note 7—Convertible Senior Notes, Note Hedges, and Warrants of the Notes to Consolidated Financial Statements. Moreover, we will be required to repay the Notes in cash at their maturity, unless earlier converted or repurchased. However, we may not have enough available cash or be able to obtain financing when the Notes are to be repurchased, converted, or at their maturity.

The conditional conversion feature of the Notes, if triggered, may adversely affect our financial condition and results of operations.

In the event the conditional conversion feature of the Notes is triggered, holders of Notes will be entitled to convert the Notes at any time during specified periods at their option. If one or more holders elect to convert their Notes, unless we elect to satisfy our conversion obligation by delivering solely shares of our common stock, we would be required to settle all or a portion of the conversion obligation through the payment of cash, which could adversely affect our liquidity. Even if holders do not elect to convert their Notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of the Notes as a current liability, which would result in a material reduction of our net working capital.

The accounting method for convertible debt securities that may be settled in cash (such as the Notes) could have a material effect on our reported financial results.

Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 470-20, Debt with Conversion and Other Options, requires us to separately account for the liability and equity components of the Notes that may be settled entirely or partially in cash upon conversion in a manner that reflects our non-convertible debt interest rate. Accordingly, the equity component of the Notes is included in additional paid-in capital within stockholders' equity in our Consolidated Balance Sheet and the value of the equity component is treated as original issue discount for purposes of accounting for the debt component of the Notes. As a result, we are required to recognize non-cash interest expense in our Consolidated Statement of Operations in current and future periods as a result of the amortization of the discounted carrying value of the Notes to their principal amount over their term. We will report lower net income because ASC 470-20 requires interest to include both the current period's amortization of the original issue discount and the Notes' non-convertible interest rate. This could adversely affect our future consolidated financial results, the trading price of our common stock, and the trading price of the Notes.

Under certain circumstances, in calculating earnings per share, convertible debt instruments (such as the Notes) that may be settled entirely or partially in cash are accounted for utilizing the treasury stock method. The effect of the treasury stock method is that the shares of common stock issuable upon conversion of the Notes, if any, are not included in the calculation of diluted earnings per share except to the extent that the conversion value of the Notes exceeds their principal amount. Under the treasury stock method, diluted earnings per share is calculated as if the number of shares of common stock that would be necessary to settle such excess were issued, if we elected to settle such excess in shares. We cannot be sure that accounting standards will continue to permit the use of the treasury stock method in the future. If we are unable to use the treasury stock method in accounting for the shares issuable upon conversion of the Notes, if any, then our diluted consolidated earnings per share would be adversely affected.

Certain provisions contained in our amended and restated certificate of incorporation, our amended and restated bylaws, and under Delaware law could delay or impair a change in control.

Certain provisions in our amended and restated certificate of incorporation and amended and restated bylaws could have the effect of rendering more difficult or discouraging an acquisition of the Company deemed undesirable by our board of directors. Our amended and restated certificate of incorporation allows the board of directors to issue preferred stock, which may include powers, preferences, privileges, and other rights superior to our common stock, thereby limiting our stockholders' ability to transfer their shares and may affect the price they are able to obtain. Our amended and restated bylaws do not allow stockholders to call special meetings and include, among other things, procedures for advance notification of stockholder nominations and proposals, which may have the effect of delaying or impairing attempts by our stockholders to remove or replace management, to commence proxy contests, or to effect changes in control or hostile takeovers of the Company.

As a Delaware corporation, we are subject to Delaware law, including Section 203 of the Delaware General Corporation Law, which imposes restrictions on certain transactions between a corporation and certain significant stockholders. These provisions could also have the effect of delaying or impairing the removal or replacement of management, proxy contests, or changes in control. Any provision of our amended and restated certificate of incorporation and amended and restated bylaws that has the effect of delaying or impairing a change in control of the Company could limit the opportunity for our stockholders to receive a premium for their shares of our common stock and could affect the price that certain investors may be willing to pay for our common stock.

Item 1B: Unresolved Staff Comments

None.

Item 2: Properties

As of December 31, 2016, we owned or leased a total of approximately 1.6 million square feet worldwide. The following table sets forth the location, size, and use of our principal facilities (square footage in thousands):

Location	Square Footage	Leased or Owned	Operating Segment	Principal Uses
Fremont, California (6750 Dumbarton Circle)	119	Owned	Corporate & Fiery	Corporate offices, design engineering, product testing, sales, marketing, customer service
Fremont, California (6700 Dumbarton Circle)	59	Leased	Fiery	Administrative offices, design engineering, product testing
Manchester, New Hampshire	225	Leased*	Industrial Inkjet	Manufacturing (VUTEK), design engineering, sales, customer service
Bergamo, Italy	168	Leased	Industrial Inkjet	Manufacturing (Reggiani textile printers), design engineering, sales, customer service
Meredith, New Hampshire	163	Owned	Industrial Inkjet	Manufacturing (Industrial Inkjet printers), design engineering, sales, customer service
Castellon, Spain	127	Leased**	Industrial Inkjet	Manufacturing, (Cretaprint), administrative, design engineering, sales, customer service
Bangalore, India	107	Leased	All	Administrative, design engineering, customer service, software engineering
Ypsilanti, Michigan	106	Leased	Industrial Inkjet	Manufacturing (digital UV & ceramic ink), design engineering, sales, customer service
Eagan, Minnesota	44	Owned	Fiery & Productivity Software	Administrative, design engineering, customer service, software engineering
Belmont, New Hampshire	40	Leased	Industrial Inkjet	Warehouse
Brussels, Belgium	39	Leased	Industrial Inkjet	Sales, Industrial Inkjet demonstration center
Laconia, New Hampshire	34	Leased	Industrial Inkjet	Warehouse
Tempe, Arizona	32	Leased	Fiery & Productivity Software	Manufacturing, (Fiery), distribution, customer service
Bradford, UK	32	Owned	Industrial Inkjet	Manufacturing (dye powders and color products for Industrial Inkjet printers), design engineering, sales, customer service
Rosh Ha'Ayin, Israel	31	Leased	Industrial Inkjet	Manufacturing (Industrial Inkjet printers), design engineering, sales, customer service
Norcross, Georgia	29	Leased	Fiery & Productivity Software	Design engineering, sales, customer service, quality assurance, and software engineering
Ratingen, Germany	27	Leased	Fiery & Productivity Software	Software engineering, sales, customer service
Schiphol-Rijk, The Netherlands	19	Leased	Industrial Inkjet	EMEA corporate offices, sales, support services
Pittsburgh, Pennsylvania	18	Leased	Productivity Software	EPS corporate offices, design engineering, sales
Shanghai, China	16	Leased	Industrial Inkjet	APAC corporate offices, Industrial Inkjet demonstration center
Rosh Ha'Ayin, Israel	13	Leased	Productivity Software	3D textile design and production
San Diego, California	12	Leased	Productivity Software	Software engineering, sales, customer service
Foshan, China	10	Leased	Industrial Inkjet	Administrative, sales, customer service
Richmond Hill, Ontario, Canada	10	Leased	Fiery	Design engineering, sales, customer service

* We entered into a six-year lease with BTMU whereby a 225,000 square foot manufacturing and warehouse facility is under construction in Manchester, New Hampshire, related to our super-wide and wide format industrial digital inkjet printer business in the Industrial Inkjet operating segment, which is scheduled to be completed in early 2018.
The lease commenced on August 26, 2016. We leased 16.9 acres of land related to this manufacturing and warehouse lease. See Note 8—Commitments and Contingencies of the Notes to Consolidated Financial Statements.

** Includes an additional 65,000 square feet expansion of our ceramic tile decoration industrial digital inkjet printer manufacturing and warehouse facility in Castellon, Spain, which is scheduled to be completed during 2017. The expansion is being built and fully financed by the lessor. We do not have any obligations related to this additional space other than rent payments that commence upon completion of construction.

In addition to the facilities listed above, we leased 44 additional domestic and international regional operations and sales offices, excluding facilities that have been fully reserved and subleased, and we own an additional international sales office building. We believe that our facilities, in general, are adequate for our present needs. We do not expect that we would experience difficulties in obtaining additional space at fair market rates, if the need arose.

Item 3: Legal Proceedings

We may be involved, from time to time, in a variety of claims, lawsuits, investigations, or proceedings relating to contractual disputes, securities laws, intellectual property rights, employment, or other matters that may arise in the normal course of business. We assess our potential liability in each of these matters by using the information available to us. We develop our views on estimated losses in consultation with inside and outside counsel, which involves a subjective analysis of potential results and various combinations of appropriate litigation and settlement strategies. We accrue estimated losses from contingencies if a loss is deemed probable and can be reasonably estimated.

As of December 31, 2016, we are subject to the matter discussed below.

Matan Digital Printing ("MDG") Matter

EFI acquired Matan Digital Printers ("Matan") in 2015 from sellers (the "2015 Sellers") that acquired Matan Digital Printing Ltd. from other sellers in 2001 (the "2001 Sellers"). The 2001 Sellers have asserted a claim against the 2015 Sellers and Matan asserting that they are entitled to a portion of the 2015 Sellers' proceeds from EFI's acquisition. The 2015 Sellers dispute this claim and have agreed to indemnify EFI against the 2001 Sellers' claim.

Although we are fully indemnified and we do not believe that it is probable that we will incur a loss, it is reasonably possible that our financial statements could be materially affected by the unfavorable resolution of this matter. Accordingly, it is reasonably possible that we could incur a material loss in this matter. We estimate the range of loss to be between one dollar and $10.1 million. If we incur a loss in this matter, it will be offset by a receivable of an equal amount representing a claim for indemnification against the escrow account established in connection with the Matan acquisition.

Other Matters

As of December 31, 2016, we were subject to various other claims, lawsuits, investigations, and proceedings in addition to the matter discussed above. There is at least a reasonable possibility that additional losses may be incurred in excess of the amounts that we have accrued. However, we believe that these claims are not material to our financial statements or the range of reasonably possible losses is not reasonably estimable. Litigation is inherently unpredictable, and while we believe that we have valid defenses with respect to legal matters pending against us, our financial statements could be materially affected in any particular period by the unfavorable resolution of one or more of these contingencies or because of the diversion of management's attention and the incurrence of significant expenses.

Item 4: Mine Safety Disclosures

Not applicable.

PART II

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

Our common stock has traded on The NASDAQ Global Select Market (formerly The NASDAQ National Market) under the symbol EFII since October 2, 1992. The table below lists the high and low sales price during each quarter the stock was traded in 2016 and 2015.

	2016				2015			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
High . . .	$46.17	$46.26	$50.09	$49.72	$43.03	$46.20	$48.36	$49.82
Low . . .	$35.88	$38.00	$40.34	$40.72	$35.45	$40.90	$41.33	$42.20

As of January 26, 2017, there were 110 stockholders of record, excluding a substantially greater number of "street name" holders or beneficial holders of our common stock, whose shares are held of record by banks, brokers, and other financial institutions.

We did not declare or pay cash dividends on our common stock in either 2016 or 2015. We currently anticipate that we will retain all available funds for the operation of our business and do not plan to pay any cash dividends in the foreseeable future. We believe that the most strategic uses of our cash resources include business acquisitions, strategic investments to gain access to new technologies, repurchases of shares of our common stock, and working capital.

Equity Compensation Plan Information

Information regarding our equity compensation plans may be found in Note 12—Employee Benefit Plans of the Notes to Consolidated Financial Statements and Item 12—Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters of this Annual Report on Form 10-K and is incorporated herein by reference.

Repurchases of Equity Securities

Repurchases of equity securities during the year ended December 31, 2016 were as follows (in thousands except per share amounts):

Fiscal month	Total number of shares purchased [(2)]	Average price paid per share	Total number of shares purchased as part of publicly announced plans	Approximate dollar value of shares that may yet be purchased under the plans [(1)]
January 2016	211	$42.14	210	$141,148
February 2016	338	39.09	258	131,004
March 2016	25	39.53	25	130,008
April 2016	175	41.27	174	122,814
May 2016	302	40.03	275	111,781
June 2016	34	44.02	34	110,275
July 2016	142	43.60	142	104,084
August 2016	267	43.95	216	94,596
September 2016	75	46.97	50	92,282
October 2016	160	45.10	150	85,493
November 2016	240	42.65	228	75,785
December 2016	11	43.83	—	75,785
Total	1,980	$42.06	1,762	$ 75,785

(1) In November 2015, our board of directors authorized $150 million for the repurchase of our outstanding common stock commencing January 1, 2016. This authorization expires December 31, 2018. Under this publicly announced plan, we repurchased 1.8 million shares for an aggregate purchase price of $74.2 million during the year ended December 31, 2016.

(2) Includes 0.2 million shares purchased from employees to satisfy the exercise price of certain stock options and any tax withholding obligations incurred in connection with such exercises and minimum tax withholding obligations that arose on the vesting of restricted stock units ("RSUs").

Sales of Unregistered Securities

On October 6, 2015, we issued 0.2 million shares of common stock to the shareholders of CTI in connection with the acquisition of CTI. The shares of common stock were offered and sold in accordance with the terms and subject to the conditions set forth in the purchase agreement for the acquisition in reliance on the private offering exemption of Section 4(a)(2) of the Securities Act of 1933, as amended.

On July 1, 2015, the Company and a subsidiary and the shareholders (the "Sellers") of Reggiani entered into a Securities Purchase Agreement relating to the acquisition of the equity securities of Reggiani. During the three months ended March 31, 2016, in connection with the release from escrow of certain funds, the Company issued 29,589 shares of its Common Stock to the Sellers. Each Seller has previously agreed that, prior to the end of the eighteen-month period following the closing of the Reggiani acquisition, such Seller will not, directly or indirectly, (a) offer, sell, offer to sell, contract to sell, pledge, grant any option to purchase or otherwise dispose of or transfer (or announce any offer, sale, offer of sale, contract of sale or grant of any option to purchase or other disposition or transfer of) any shares of Common Stock; provided that, after the end of the six-month period following the closing, each Seller is permitted, subject to certain restrictions, to transfer shares of Common Stock to a permitted transferee of such Seller, or (b) other than as permitted in clause (a) above, reduce its beneficial ownership of, interest in, or risk relating to, any of such Seller's shares of Common Stock.

The shares of Common Stock were offered and sold in accordance with the terms and subject to the conditions set forth in the Securities Purchase Agreement and in reliance on the private offering exemption of Section 4(a)(2) of the Securities Act of 1933, as amended (the "Securities Act"), the private offering safe harbor provisions of Rule 506 of Regulation D under the Securities Act and/or the safe harbor provisions of Regulation S under the Securities Act based on the following factors: (i) the absence of general solicitation; (ii) the investment representations obtained from the Sellers, including with respect to the sophistication and status as an accredited investor or non-U.S. person; (iii) the provision of appropriate disclosures related to the Sellers' investment decision; and (iv) the placement of restrictive legends on the certificates reflecting the securities.

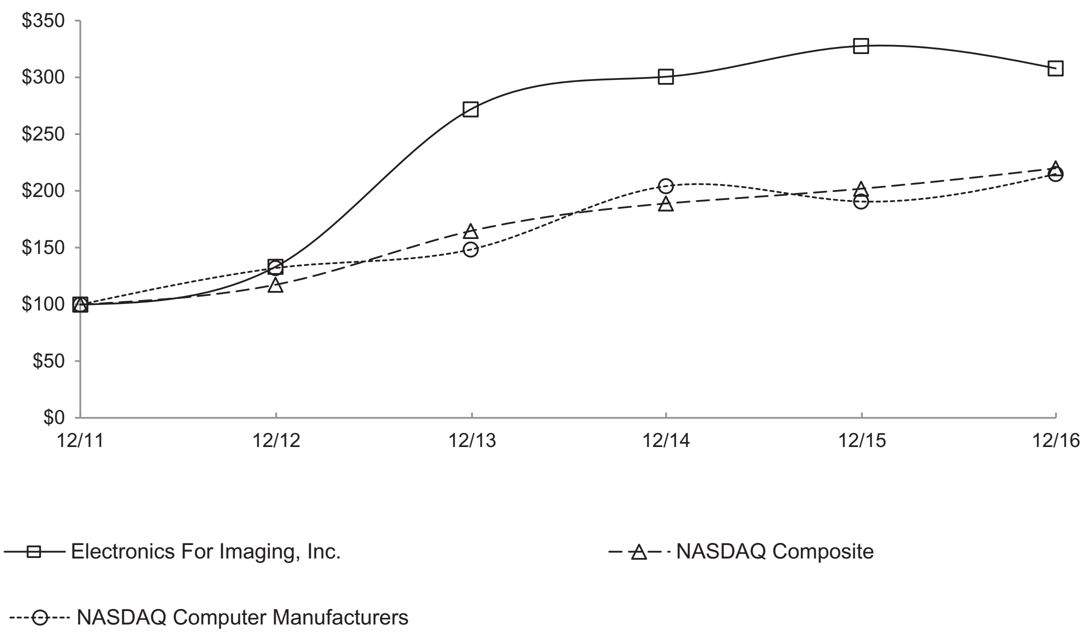
Comparison of Cumulative Total Return among Electronics For Imaging, Inc., NASDAQ Composite, and NASDAQ Computer Manufacturers Index

The stock price performance graph below includes information required by the SEC and shall not be deemed incorporated by reference by any general statement incorporating by reference in this Annual Report on Form 10-K into any filing under the Securities Act or under the Exchange Act, except to the extent the Company specifically incorporates this information by reference, and shall not otherwise be deemed soliciting material or filed under the Securities Act or the Exchange Act, or subject to the liabilities of Section 18 of the Exchange Act.

The following graph compares cumulative total returns based on an initial investment of $100 in our common stock to the NASDAQ Composite and the NASDAQ Computer Manufacturers Index. The stock price performance shown on the graph below is not indicative of future price performance and only reflects the Company's relative stock price for the five-year period ending on December 31, 2016. All values assume reinvestment of dividends and are calculated at December 31 of each year.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Electronics For Imaging, Inc., the NASDAQ Composite Index, and the NASDAQ Computer Manufacturers Index



*$100 invested on 12/31/11 in stock or index, including reinvestment of dividends.
Fiscal year ending December 31.

Item 6: Selected Financial Data

The following table summarizes selected consolidated financial data as of and for the five years ended December 31, 2016. This information should be read in conjunction with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the audited consolidated financial statements and related notes thereto. For a more detailed description, see Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

	For the years ended December 31,				
(in thousands, except per share amounts)	**2016**	**2015**	**2014**	**2013**	**2012**
Operations [1]					
Revenue	$ 992,065	$ 882,513	$ 790,427	$ 727,693	$ 652,137
Gross profit	508,690	459,384	429,737	395,166	354,821
Income from operations [2]	56,553	56,643	53,439	174,648	33,886
Net income [2][3]	$ 45,546	$ 33,540	$ 33,714	$ 109,107	$ 83,269
Earnings per share					
Net income per basic common share	$ 0.97	$ 0.71	$ 0.72	$ 2.34	$ 1.79
Net income per diluted common share	$ 0.95	$ 0.70	$ 0.70	$ 2.26	$ 1.74
Shares used in basic per-share calculation	46,900	47,217	46,866	46,643	46,453
Shares used in diluted per-share calculation	47,797	48,150	48,406	48,359	47,734

	December 31,				
(in thousands)	**2016**	**2015**	**2014**	**2013**	**2012**
Financial Position					
Cash, cash equivalents, and short-term investments	$ 459,741	$ 497,367	$ 616,732	$ 355,041	$ 364,962
Working capital [4] [5]	552,405	586,687	666,405	378,763	209,017
Total assets [4]	1,481,496	1,450,151	1,297,422	1,026,384	1,074,971
Convertible senior notes, net [4] [6]	304,484	290,734	277,670	—	—
Stockholders' equity	827,832	824,194	788,689	767,450	650,793

(1) Includes acquired company results of operations beginning on the date of each acquisition. See Note 3—Business Acquisitions of the Notes to Consolidated Financial Statements for a summary of recent acquisitions during the years ended December 31, 2016, 2015, and 2014.

(2) Income from operations includes the following:

	December 31,				
(in thousands)	**2016**	**2015**	**2014**	**2013**	**2012**
Amortization of acquisition-related intangibles	$39,560	$26,510	$20,673	$ 19,438	$18,594
Stock-based compensation expense	31,826	34,071	36,061	25,770	19,721
Restructuring and other costs	6,729	5,731	6,578	4,834	5,803
Litigation settlement expenses (recoveries)	1,027	584	897	(3,081)	256
Change in fair value of contingent consideration	6,939	(2,135)	(3,810)	(5,742)	(1,360)
Acquisition-related transaction costs	2,241	5,494	1,501	1,434	2,200
Gain on sale of building and land [7]	—	—	—	(117,216)	—
Total charges, net of recoveries	$88,322	$70,255	$61,900	$ (74,563)	$45,214

(3) Net income includes the following:

- Tax benefit from the release of previously unrecognized tax benefits of $16.6, $7.4, $2.9, $5.8, and $11.8 million for the years ended December 31, 2016, 2015, 2014, 2013, and 2012, respectively, resulting from the release of previously unrecognized tax benefits due to the expiration of U.S. federal, state, and foreign statutes of limitations.
- Tax benefit of $3.1 million during the year ended December 31, 2014 resulting from the increased valuation of intangible assets for Brazilian tax reporting.
- Tax provision of $19.4 million during the year ended December 31, 2013 to establish a valuation allowance related to the realization of tax benefits from existing California deferred tax assets.
- Tax benefit of $3.2 million during the year ended December 31, 2013, resulting from the renewal of the U.S. federal research and development tax credit on January 2, 2013, retroactive to 2012, pursuant to the American Taxpayer Relief Act of 2012. ASC 740-10-45-15, Income Taxes, requires the effects of a change in tax law or rates be recognized in the period that includes the enactment date.
- Tax benefit of $43.6 million during the year ended December 31, 2012 resulting from a capital loss related to the liquidation of a wholly-owned subsidiary.
- Tax benefit of $6.5 million during the year ended December 31, 2012 resulting from the increased valuation of acquired intangibles for tax purposes due to an operational restructuring in Spain.

(4) In April 2015, the FASB issued Accounting Standards Update ("ASU") 2015-03, Simplifying the Presentation of Debt Issuance Costs, which became effective in the first quarter of 2016. ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt, which is consistent with the presentation of debt discounts and premiums. Retrospective application is required, which resulted in the reclassification of $5.8 and $7.1 million of debt issuance costs from other current assets and other assets to a direct reduction of our 0.75% Convertible Senior Notes, net, due 2019 ("Notes") in our Consolidated Balance Sheet as of December 31, 2015 and 2014, respectively.

(5) ASU 2015-17, Balance Sheet Classification of Deferred Taxes, issued in November 2015 and effective in the first quarter of 2016, removes the requirement to classify the current and noncurrent amounts of deferred income tax assets and liabilities and requires noncurrent classification. Under prior guidance, the current and noncurrent classification of deferred income tax assets and liabilities was generally determined by reference to the classification of the related asset or liability unless there is no associated asset or liability that will cause the temporary timing difference to reverse. In that situation, the expected reversal date of the timing difference is used for classification purposes. We have elected to apply this guidance retrospectively to all prior periods to maintain the comparability of presentation between periods. We elected to early adopt this standard in 2015, which retroactively reduced working capital by $17.1, $20.9, and $53.8 million as of December 31, 2014, 2013, and 2012, respectively.

(6) In September 2014, we completed a private placement of $345 million principal amount of 0.75% Convertible Senior Notes due 2019 ("Notes"). Holders of the Notes will have the right to require us to repurchase all or a portion of their Notes upon the occurrence of a fundamental change at a repurchase price equal to 100% of the principal amount of the Notes to be repurchased, plus accrued and unpaid interest, if any, as described in Note 7—Convertible Senior Notes, Note Hedges, and Warrants of the Notes to Consolidated Financial Statements.

(7) On November 1, 2012, we sold the 294,000 square foot building located in Foster City, California, which at that time served as our corporate headquarters, along with approximately four acres of land and certain other assets related to the property, for $179.7 million. We used the facility until October 31, 2013, while searching for a new facility, building it out, and relocating our corporate headquarters, for which period rent was not required to be paid. Because we vacated the facility on October 31, 2013, we have no continuing involvement with the property and have accounted for the transaction as a property sale during the fourth quarter of 2013, thereby recognizing a gain of approximately $117.2 million on the sale of the property.

Item 7: Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with the audited consolidated financial statements and related notes thereto included in this Annual Report on Form 10-K.

All assumptions, anticipations, expectations, and forecasts contained herein are forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act that involve risks and uncertainties. Forward-looking statements include, among others, those statements including the words “anticipate,” “believe,” “consider,” “continue,” “develop,” “estimate,” “expect,” “goal,” “intend,” “may,” “look,” “plan,” “potential,” “project,” “seek,” “should,” “target,” “will,” variations of such words, and similar expressions. Our actual results could differ materially from those discussed here. For a discussion of the factors that could impact our results, readers are referred to Item 1A, “Risk Factors,” in Part I of this Annual Report on Form 10-K and to our other reports filed with the SEC, including the Company’s most recent Quarterly Report on Form 10-Q and Current Reports on Form 8-K, and any amendments thereto. We do not assume any obligation to update the forward-looking statements provided to reflect events that occur or circumstances that exist after the date on which they were made.

Overview

Key financial results for the year ended December 31, 2016 were as follows:

- Our results of operations for the year ended December 31, 2016 compared with the prior year reflect revenue growth, gross profit improvement, comparable operating expenses as a percentage of revenue, increased interest expense related to our Notes, and increased investment income resulting from increased interest rates. We completed our acquisitions of Rialco and Optitex in 2016. Post-acquisition revenue was $19.8 million in 2016 related to these two acquisitions. We completed our acquisitions of Reggiani, Matan, CTI, and Shuttleworth in 2015. Post-acquisition revenue was $88.4 million in 2015 related to these four acquisitions. We completed our acquisitions of DIMS, DirectSmile, Rhapso, and SmartLinc in 2014. Their results are included in our results of operations commencing on their respective acquisition dates.
- Our consolidated revenue increased by 12%, or $109.5 million, to $992.1 million for the year ended December 31, 2016 from $882.5 million for the year ended December 31, 2015. Industrial Inkjet and Productivity Software revenue increased by $114.9 and $16.4 million, respectively, partially offset by decreased Fiery revenue of $21.7 million in 2016 compared with 2015. Recurring ink and maintenance revenue increased by 21% during the year ended December 31, 2016 compared with the same period in the prior year and represented 31% of consolidated revenue.
- Our gross profit percentage decreased to 51% during the year ended December 31, 2016, from 52% during the year ended December 31, 2015, primarily due to increased Industrial Inkjet revenue at a lower gross profit percentage (35%) compared with Productivity Software (75%) and Fiery (71%). The gross profit percentages increased in each of our operating segments compared with the same periods in the prior year.
- Operating expenses increased by $49.4 million to $452.1 million during the year ended December 31, 2016, from $402.7 million during the year ended December 31, 2015, but was comparable as a percentage of revenue at 46% to the year ended December 31, 2015. The increase in operating expenses was primarily due to head count increases related to our business acquisitions, prototype and non-recurring engineering expenses related to future product launches, trade show and marketing program expenses, amortization of intangible assets, increased expenses related to litigation and uncollectible accounts, restructuring and other charges, and increased fair value of contingent consideration.
- Interest expense increased by $0.3 million, to $17.7 million for the year ended December 31, 2016 from $17.4 million for the year ended December 31, 2015 primarily due to interest accretion on our Notes.

- Interest income and other income (expense), net, was a gain of $0.5 million during the year ended December 31, 2016, compared with a loss of $1.8 million during the year ended December 31, 2015, primarily because the foreign exchange loss decreased by $0.4 million resulting primarily from revaluation of foreign currency denominated net assets (mainly denominated in Euros and British pounds sterling, and Chinese renminbi), and investment income increased by $1.7 million due to increased interest rates.
- We recorded a tax benefit of $6.2 million in 2016 on pre-tax income of $39.4 million compared to a tax provision of $4.0 million in 2015 on pre-tax income of $37.5 million. We recognized $16.6 million of previously unrecognized tax benefits in 2016 as compared to $7.4 million in 2015.

Results of Operations

The following table presents items in our consolidated statements of operations as a percentage of total revenue for 2016, 2015, and 2014. These operating results are not necessarily indicative of results for any future period.

	For the years ended December 31,		
	2016	**2015**	**2014**
Revenue	100%	100%	100%
Gross profit	51	52	54
Operating expenses (gains):			
Research and development	15	16	17
Sales and marketing	17	18	19
General and administrative	9	8	8
Amortization of identified intangibles	4	3	3
Restructuring and other	1	1	1
Total operating expenses	46	46	48
Income from operations	5	6	6
Interest expense	(1)	(2)	(1)
Interest income and other income (expense), net	—	—	—
Income before income taxes	4	4	5
Benefit from (provision for) income taxes	1	—	(1)
Net income	5%	4%	4%

Revenue

We classify our revenue, gross profit, assets, and liabilities in accordance with our three operating segments as follows:

Industrial Inkjet, which consists of our VUTEk and Matan super-wide and wide format display graphics, Reggiani textile, Jetrion label and packaging, and Cretaprint ceramic tile decoration and construction material industrial digital inkjet printers; UV curable, LED, ceramic, water-based, and thermoforming ink, as well as a variety of textile ink including dye sublimation, pigmented, reactive dye, acid dye, pure disperse dye, and water-based dispersed printing ink; digital inkjet printer parts; and professional services. Printing surfaces include paper, vinyl, corrugated, textile, glass, plastic, aluminum composite, ceramic tile, wood, and many other flexible and rigid substrates.

Productivity Software, which consists of a complete software suite that enables efficient and automated end-to-end business and production workflows for the print and packaging industry. This *Productivity Suite* also provides tools to enable revenue growth, efficient scheduling, and optimization of processes, equipment, and personnel. Customers are provided the financial and technical flexibility to deploy locally within their business or to be hosted in the cloud. The Productivity Suite addresses all segments of the print industry and consists of the: (i) *Packaging Suite,* with Radius at its core, for tag & label, cartons, and flexible packaging businesses; (ii) *Corrugated Packaging Suite,* with CTI at its core, for corrugated packaging businesses; (iii) *Enterprise Commercial Print Suite,* with Monarch at its core, for enterprise print businesses; (iv) *Publication Print Suite,* with Monarch or Technique at its core, for publication print businesses; (v) *Mid-market Print Suite,* with Pace at its core, for medium size print businesses; (vi) *Quick Print Suite,* with PrintSmith at its core, for small printers and in-plant sites; and (vii) *Value Added Products,* available with the suite and standalone, such as web-to-print, e-commerce, cross media marketing, warehousing, fulfillment, shop floor data collection, and shipping to reduce costs, increase profits, and offer new products and services to their existing and future customers. We also market Optitex fashion CAD software, which facilitates fast fashion and increased efficiency in the fashion and textile industries.

Fiery, which consists of DFEs that transform digital copiers and printers into high performance networked printing devices for the office, industrial, and commercial printing markets. This operating segment is comprised of (i) stand-alone DFEs connected to digital printers, copiers, and other peripheral devices, (ii) embedded DFEs and design-licensed solutions used in digital copiers and multi-functional devices, (iii) optional software integrated into our DFE solutions such as Fiery Central and Graphics Arts Package, (iv) Fiery Self Serve, our self-service and payment solution, (v) PrintMe, our mobile printing application, and (vi) stand-alone software-based solutions such as our proofing and scanning solutions.

Ex-Currency. To better understand trends in our business, we believe it is helpful to adjust our statement of operations to exclude the impact of year-over-year changes in the translation of foreign currencies into U.S. dollars. This is a non-GAAP measure that is calculated by adjusting revenue, gross profit, and operating expenses by using historical exchange rates in effect during the comparable prior period and removing the balance sheet currency remeasurement impact from interest income and other income (expense), net, including removal of any hedging gains and losses. We refer to these adjustments as "ex-currency." The year-over-year currency impact can be determined as the difference between year-over-year actual growth rates and year-over-year ex-currency growth rates.

Management believes the ex-currency measures provide investors with an additional perspective on year-over-year financial trends and enables investors to analyze our operating results in the same way management does. A reconciliation of the ex-currency adjustments to GAAP results for the years ended December 31, 2016 and 2015 and an explanation of how management uses non-GAAP financial information to evaluate its business, the substance behind management's decision to use this non-GAAP financial information, the material limitations associated with the use of non-GAAP financial information, the manner in which management compensates for those limitations, and the substantive reasons management believes that this non-GAAP financial information provides useful information to investors is included under "Non-GAAP Financial Information" below.

Please refer to the section entitled "Unaudited Non-GAAP Financial Information" for these non-GAAP measures a reconciliation of these measures to the most comparable GAAP measures.

Revenue by Operating Segment

Our revenue by operating segment for the years ended December 31, 2016, 2015, and 2014 was as follows (in thousands):

	For the years ended December 31,						% change	
	2016		2015		2014		2016 over 2015	2015 over 2014
Industrial Inkjet	$562,583	57%	$447,705	51%	$379,170	48%	26%	18%
Productivity Software	151,737	15	135,350	15	130,743	17	12	4
Fiery	277,745	28	299,458	34	280,514	35	(7)	7
Total revenue	$992,065	100%	$882,513	100%	$790,427	100%	12%	12%

Overview

Revenue was $992.1, $882.5, and $790.4, million for the years ended December 31, 2016, 2015, and 2014, respectively, resulting in a 12% increase (14% ex-currency) in 2016 compared with 2015 and a 12% increase (17% ex-currency) in 2015 compared with 2014.

The $109.5 million increase in 2016 compared with 2015 was primarily due to increased Reggiani textile, Matan super-wide format, and Cretaprint ceramic tile decoration digital inkjet printer revenue, increased ink revenue, and post-acquisition Rialco revenue in the Industrial Inkjet operating segment and post-acquisition Optitex, CTI, and Shuttleworth revenue in the Productivity Software operating segment, partially offset by decreased Fiery revenue.

The $92.1 million increase in 2015 was primarily driven by the post-acquisition performance of Reggiani and Matan in our Industrial Inkjet operating segment, our acquisition strategy in the Productivity Software operating segment, and product launches by the leading printer manufacturers in the Fiery operating segment.

Industrial Inkjet

Industrial Inkjet revenue increased by $114.9 million, or 26% in 2016 compared with 2015 (27% ex-currency). Industrial Inkjet revenue is benefiting from the ongoing analog to digital technology and solvent to UV curable ink migration primarily due to:

- the complementary impact of the Industrial Inkjet business acquisitions,
- increased revenue resulted from a full year of Reggiani textile and Matan super-wide format industrial digital inkjet printer revenue in 2016 compared with six months in 2015,
- post-acquisition Rialco ink products revenue,
- the FabriVu 180/340 soft signage super wide-format roll-to-roll digital inkjet graphics printer manufactured in our Reggiani facility,
- increased revenue from the C4 ceramic tile decoration digital inkjet printer, the launch of the M4 ceramic digital inkjet printer that can use a variety of print heads,
- increased ceramic ink revenue as our internally formulated ceramic ink gains market share, and
- increased UV and LED curable ink revenue as a result of the high utilization that our UV printers are experiencing in the field,
- partially offset by decreased solvent printer installed base demand measured by solvent ink usage.

Industrial Inkjet revenue increased by $68.5 million, or 18% in 2015 compared with 2014 (27% ex-currency). Industrial Inkjet revenue is benefiting from the ongoing analog to digital technology and solvent to UV curable ink migration primarily due to:

- the complementary impact of the Reggiani and Matan business acquisitions,
- increased UV and LED curable ink revenue as a result of the high utilization that our UV printers are experiencing in the field, partially offset by decreased solvent printer installed base demand measured by solvent ink usage,
- strong demand for our newly launched products incorporating LED technology such as the LX3 Pro digital inkjet printer, which is a 3.2 meter hybrid flatbed/roll-fed printer that prints on rigid and flexible materials up to two inches thick,
- the HS 100 digital UV inkjet press representing an alternative to analog presses utilizing pin & cure technology,

- the H1625 digital UV inkjet wide format printer, and
- the launch of the C4, our next generation ceramic tile decoration digital inkjet printer.

Productivity Software

Productivity Software revenue increased by $16.4 million, or 12%, in 2016 compared with 2015 (14% ex-currency), primarily due to post-acquisition Optitex revenue, a full year of CTI and Shuttleworth revenue in 2016 compared with three and two months, respectively, in 2015; increased license revenue; and annual price increases related to our maintenance contracts.

Productivity Software revenue increased by $4.6 million, or 4%, in 2015 compared with 2014 (9% ex-currency), primarily due to increased license revenue from our 2015 acquisitions of CTI and Shuttleworth and professional services and recurring maintenance revenue primarily resulting from our 2014 acquisition of DIMS and DirectSmile. We also implemented annual price increases, which marginally increased revenue.

Fiery

Fiery revenue decreased by $21.7 million, or 7%, in 2016 compared with 2015 (also 7% ex-currency). Although end customer and reseller preference for Fiery products drives demand, most Fiery revenue relies on printer manufacturers to integrate Fiery technology into the design and development of their print engines. Fiery revenue decreased primarily due to

- reduced end user demand associated with the Drupa trade show in June 2016, which occurs every four years, caused by end users delaying purchasing decisions until new printer models are available,
- one significant printer manufacturer purchasing less inventory, and
- weak APAC demand.

Fiery revenue increased by $18.9 million, or 7%, in 2015 compared with 2014 (also 7% ex-currency). Fiery revenue increased primarily due to:

- consistent product launches by these printer manufacturers with increased speed, quality, and versatility have made the DFE a more significant consideration for the customer resulting in increased stand-alone Fiery DFE revenue,
- the release of the Fiery FS200 Pro DFE incorporating higher speed processing, expanded color offerings, shop automation, and connectivity, and
- integration of Fiery DFEs with certain Productivity Software products.

Revenue by Geographic Area

Shipments to some of our significant printer manufacturer customers are made to centralized purchasing and manufacturing locations, which in turn ship to other locations, making it difficult to obtain accurate geographical shipment data. Accordingly, we believe that export sales of our products into each region may differ from what is reported.

Our revenue by geographic region for the years ended December 31, 2016, 2015, and 2014 was as follows (in thousands):

	For the years ended December 31,						% change	
	2016		2015		2014		2016 over 2015	2015 over 2014
Americas	$500,411	50%	$473,599	54%	$438,421	55%	6%	8%
EMEA	360,305	37	291,103	33	244,545	31	24	19
APAC	131,349	13	117,811	13	107,461	14	11	10
Total revenue	$992,065	100%	$882,513	100%	$790,427	100%	12%	12%

Overview

Our consolidated revenue increase of $109.5 million, or 12% in 2016 compared with 2015 (14% ex-currency), resulted from increased revenue in the Americas, EMEA, and APAC. Our consolidated revenue increase of $92.1 million, or 12% in 2015 compared with 2014 (17% ex-currency), resulted from increased revenue in the Americas, EMEA, and APAC.

Americas

Americas revenue increased by $26.8 million, or 6%, in 2016 compared with 2015 (also 6% ex-currency) resulting from increased UV and LED curable ink revenue; increased Reggiani textile, Vutek and Matan super-wide format, label and packaging, and ceramic tile decoration digital inkjet printer revenue; and increased Productivity Software revenue; partially offset by decreased Fiery revenue. Increased Productivity Software revenue resulted primarily from our 2016 acquisition of Optitex; our 2015 acquisition of CTI, and increased Radius and Metrics license revenue. Fiery revenue decreased primarily due to reduced end user demand associated with the Drupa trade show in June 2016, which occurs every four years, caused by end users delaying purchasing decisions until new printer models are available and one significant printer manufacturer purchasing less inventory.

Americas revenue increased by $35.2 million, or 8%, in 2015 compared with 2014 (9% ex-currency) resulting from increased revenue in all three of our operating segments resulting from increased UV and LED curable ink revenue, incremental revenue from Reggiani industrial digital inkjet textile printers and Matan industrial digital inkjet super-wide format printers, Fiery revenue, professional services revenue resulting from progress on major development projects, and increased license revenue from our 2015 acquisition of CTI.

EMEA

EMEA revenue increased by $69.2 million, or 24%, in 2016 compared with 2015 (26% ex-currency) primarily due to increased Reggiani textile, Matan super-wide format, and ceramic tile decoration digital inkjet printer revenue; post-acquisition revenue from our 2016 acquisitions of Rialco and Optitex; revenue from our 2015 acquisition of Shuttleworth; and increased Pace license revenue; partially offset by decreased Fiery revenue due to reduced end user demand associated with the Drupa trade show in June 2016, which occurs every four years, caused by end users delaying purchasing decisions until new printer models are available and one significant printer manufacturer purchasing less inventory.

EMEA revenue increased by $46.6 million, or 19%, in 2015 compared with 2014 (32% ex-currency) primarily due to increased Fiery and Industrial Inkjet revenue. The increase in Industrial Inkjet revenue is primarily due to sales of Reggiani industrial digital inkjet textile printers, Matan industrial digital inkjet super-wide format printers, and increased Fiery revenue.

APAC

APAC revenue increased by $13.5 million, or 11%, in 2016 compared with 2015 (13% ex-currency) primarily due to increased Matan super-wide format, ceramic tile decoration, and Reggiani digital inkjet printer revenue; and Optitex post-acquisition revenue; partially offset by decreased Fiery revenue primarily due to weak APAC demand.

APAC revenue increased by $10.4 million, or 10%, in 2015 compared with 2014 (15% ex-currency) primarily due to increased Industrial Inkjet revenue. We achieved revenue increases in each of our industrial inkjet printers in this region, including super-wide and wide format, label & packaging, textile, and ceramic tile decoration digital inkjet printers.

Revenue Concentration

A substantial portion of our revenue over the years has been attributable to sales of products through the leading printer manufacturers and independent distributor channels. We have a direct relationship with several leading printer manufacturers and work closely to facilitate integration of Fiery technology into the design and development of their print engines. The printer manufacturers act as distributors and sell Fiery products to end customers through reseller channels. End customer and reseller channel preference for the Fiery DFE and software solutions drive demand for Fiery products through the printer manufacturers.

Although end customer and reseller channel preference for Fiery products drives demand, most Fiery revenue relies on printer manufacturers to integrate Fiery technology into the design and development of their print engines. A significant portion of our revenue is, and has been, generated by sales of our Fiery DFE products to a relatively small number of leading printer manufacturers. However, none of these printer manufacturers accounted for more than 10% of our revenue for the year ended December 31, 2016.

Our reliance on revenue from the leading printer manufacturers was 28%, 33%, and 33% during 2016, 2015, and 2014, respectively. Over time, we expect our revenue from the leading printer manufacturers to decline. Because sales of our printer and copier-related products constitute a significant portion of our revenue and there are a limited number of printer manufacturers producing copiers and printers in sufficient volume to be attractive customers for us, we expect that we will continue to depend on a relatively small number of printer manufacturers for a significant portion of our Fiery DFE revenue in future periods. Accordingly, if we lose or experience reduced sales to one of these printer manufacturer/distributors, we will have difficulty replacing that revenue with sales to new or existing customers.

Gross Profit

Gross profit by operating segment, excluding stock-based compensation, for the years ended December 31, 2016, 2015, and 2014 was as follows (in thousands):

	2016	2015	2014
Industrial Inkjet			
Revenue	$562,583	$447,705	$379,170
Gross profit	199,448	152,918	143,981
Gross profit percentages	35.5%	34.2%	38.0%
Productivity Software			
Revenue	$151,737	$135,350	$130,743
Gross profit	114,179	99,278	94,733
Gross profit percentages	75.2%	73.3%	72.5%
Fiery			
Revenue	$277,745	$299,458	$280,514
Gross profit	198,322	210,140	193,585
Gross profit percentages	71.4%	70.2%	69.0%

A reconciliation of operating segment gross profit to the consolidated statements of operations for the years ended December 31, 2016, 2015, and 2014 is as follows (in thousands):

	2016	2015	2014
Segment gross profit	$511,949	$462,336	$432,299
Stock-based compensation expense	(2,784)	(2,837)	(2,562)
Other items excluded from segment profit	(475)	(115)	—
Gross profit	$508,690	$459,384	$429,737

Overview

Our gross profit percentage decreased to 51% (52% ex-currency using 2015 exchange rates) during the year ended December 31, 2016, compared to 52% (also 52% ex-currency using 2014 exchange rates) during the year ended December 31, 2015, and 54% during the year ended December 31, 2014, primarily due to increased Industrial Inkjet revenue at a gross profit percentage of 35.5% compared with Productivity Software and Fiery gross profit percentages of 75.2% and 71.4%, respectively. Industrial Inkjet revenue increased as a percentage of revenue to 56.7% during the year ended December 31, 2016, from 50.7% and 48.0%, during the years ended December 31, 2015 and 2014, respectively.

Industrial Inkjet Gross Profit

The Industrial Inkjet gross profit percentage increased to 35.5% in 2016 (35.7% ex-currency using 2015 exchange rates) from 34.2% in 2015. Gross profit percentages improved by leveraging efficiencies in our worldwide digital inkjet printer manufacturing operations, centralizing super wide-format textile digital inkjet printer production in Italy, transferring production of super wide-format roll-to-roll digital inkjet printers to Israel to leverage the lower cost platform that Matan provides, reducing warranty expense as a percentage of revenue due to engineering and quality improvements, and increasing ink revenue as a percentage of consolidated Industrial Inkjet revenue. Our ink business generates a higher gross profit percentage than other elements of our Industrial Inkjet operating segment.

The Industrial Inkjet gross profit percentage decreased to 34.2% in 2015 (35.8% ex-currency using 2014 exchange rates) from 38.0% in 2014 primarily due to lower gross margin percentages realized from Reggiani and the foreign currency impact of international sales of super-wide and wide format industrial digital inkjet printers for which the cost was denominated in U.S. dollars, partially offset by increased gross margin percentages realized from the next generation C4 ceramic tile decoration digital inkjet printer, which has experienced improving margins subsequent to product launch.

Productivity Software Gross Profit

The Productivity Software gross profit percentage increased to 75.2% in 2016 (75.0% ex-currency using 2015 exchange rates) from 73.3% in 2015 primarily due to efficiencies gained through increased revenue on a relatively fixed cost base, achievement of certain post-acquisition cost synergies, and price increases on annual maintenance renewal contracts.

The Productivity Software gross profit percentage increased to 73.3% in 2015 (73.2% ex-currency using 2014 exchange rates) from 72.5% in 2014 primarily due to increased professional services revenue at a higher margin, achievement of certain post-acquisition cost synergies, and price increases on annual maintenance renewal contracts.

Fiery Gross Profit

The Fiery gross profit percentage increased to 71.4% in 2016 (also 71.4% ex-currency using 2015 exchange rates) from 70.2% in 2015. The revenue mix between lower margin DFEs and software solutions compared with higher margin professional services for this margin fluctuation between the periods.

The Fiery gross profit percentage increased to 70.2% in 2015 (also 70.2% ex-currency using 2014 exchange rates) from 69.0% in 2014 primarily due to higher margin professional services revenue and reduced costs related to DFEs and other products required for newly launched printers by the leading printer manufacturers.

Operating Expenses

Operating expenses for the years ended December 31, 2016, 2015, and 2014 were as follows (in thousands):

	For the years ended December 31,			% change	
	2016	2015	2014	2016 over 2015	2015 over 2014
Research and development	$151,192	$141,364	$134,732	7%	5%
Sales and marketing	169,042	156,339	147,383	8	6
General and administrative	85,614	72,797	66,932	18	9
Amortization of identified intangibles	39,560	26,510	20,673	49	28
Restructuring and other	6,729	5,731	6,578	17	(13)
Total operating expenses	$452,137	$402,741	$376,298	12%	7%

Operating expenses increased by $49.4 million, or 12%, in 2016 (13% ex-currency) as compared with 2015, and increased by $26.4 million, or 7%, in 2015 (12% ex-currency) as compared with 2014.

Operating expenses increased by $49.4 million to $452.1 million during the year ended December 31, 2016, from $402.7 million during the year ended December 31, 2015, but was comparable as a percentage of revenue at 46% to the year ended December 31, 2015. The increase in operating expenses was primarily due to head count increases related to our business acquisitions, prototype and non-recurring engineering expenses related to future product launches, trade show and marketing program expenses, amortization of intangible assets, increased expenses related to litigation and uncollectible accounts, restructuring and other charges, and increased fair value of contingent consideration.

Operating expenses increased by $26.4 million, to $402.7 million during the year ended December 31, 2015 from $376.3 million during the year ended December 31, 2014, but decreased as a percentage of revenue to 46% during the year ended December 31, 2015 from 48% during the year ended December 31, 2014. The increase in operating expenses was primarily due to head count increases related to our business acquisitions, prototype and non-recurring engineering expenses related to future product launches, trade show and marketing program expenses, transaction expenses related to our business acquisitions, amortization of intangible assets, and increased expenses related to litigation and uncollectible accounts, partially offset by reduced legal fees.

Research and Development

Research and development expenses include personnel, consulting, travel, research and development facilities, prototype materials, and non-recurring engineering expenses.

Research and development expenses for the years ended December 31, 2016, 2015, and 2014 were $151.2 million, or 15% of revenue, $141.4 million, or 16% of revenue, and $134.7 million, or 17% of revenue, respectively.

Research and development expenses increased by $9.8 million, or 7%, in 2016 as compared with 2015 (8% ex-currency). Personnel-related expenses increased by $9.9 million primarily due to head count increases related to our business acquisitions and variable compensation expense. Prototypes and non-recurring engineering, consulting, contractor, freight, and related travel expenses decreased by $0.2 million. Stock-based compensation expense decreased by $0.4 million because actual forfeitures were greater than the previous forfeiture estimate that was used prior to implementation of ASU 2016-09 as more fully explained in Note 1—Basis of Presentation and Significant Accounting Policies, reduced probability of achieving performance awards, and decreased Employee Stock Purchase Plan (“ESPP”) participation by employees compared to the prior year. The remaining increase of $0.5 million is primarily due to facility and information technology expenses related to our research and development activities.

Research and development expenses increased by $6.6 million, or 5%, in 2015 as compared with 2014 (8% ex-currency). Personnel-related expenses increased by $3.4 million primarily due to head count increases related to our business acquisitions and increased variable compensation due to improved profitability. Prototypes and non-recurring engineering, consulting, contractor, freight, and related travel expenses increased by $2.8 million primarily due to product development efforts in advance of product launches. Stock-based compensation expense increased by $0.6 million primarily due to bonus program vesting and increased ESPP expense, which is due to the appreciating stock price and increased employee participation compared to the prior year.

Research and development head count was 1,209, 1,196, and 1,067 as of December 31, 2016, 2015, and 2014, respectively.

We expect that if the U.S. dollar remains volatile against the Indian rupee, Euro, British pound sterling, Israeli shekel, Canadian dollar, or Brazilian real, research and development expenses reported in U.S. dollars could fluctuate, although we hedge our operating expense exposure to the Indian rupee, which partially mitigates this risk.

Sales and Marketing

Sales and marketing expenses include personnel, trade shows, marketing programs and promotional materials, sales commissions, travel and entertainment, depreciation, and worldwide sales office expenses.

Sales and marketing expenses for the years ended December 31, 2016, 2015, and 2014 were $169.0 million, or 17% of revenue, $156.3 million, or 18% of revenue, and $147.4 million, or 19% of revenue, respectively.

Sales and marketing expenses increased by $12.7 million, or 8%, in 2016 as compared with 2015 (9% ex-currency). Personnel-related expenses increased by $8.0 million primarily due to head count increases related to our business acquisitions and increased commissions due to increased revenue. Trade show and marketing program spending, including consulting, contractor, travel, and freight, increased by $4.8 million primarily due to the Drupa trade show, which is an international printing trade show that is held every four years.

Sales and marketing expenses increased by $9.0 million, or 6%, in 2015 as compared with 2014 (13% ex-currency). Personnel-related expenses increased by $4.1 million primarily due to head count increases related to our business acquisitions, partially offset by reduced commissions and variable compensation. Trade show and marketing program spending, including consulting, contractor, travel, and freight, has increased by $3.6 million. Stock-based compensation expense increased by $0.5 million primarily due to bonus program vesting and increased ESPP expense, which is due to the appreciating stock price and increased employee participation compared to the prior year. The remaining increase of $0.8 million is primarily due to facility and information technology expenses related to our sales and marketing activities.

Sales and marketing head count was 950, 892, and 762 as of December 31, 2016, 2015, and 2014, respectively, including 398, 360, and 304 in customer service head count for each of the years presented.

Over time, our sales and marketing expenses may increase in absolute terms if revenue increases in future periods as we continue to actively promote our products and introduce new services and products. We expect that if the U.S. dollar remains volatile against the Euro, British pound sterling, Brazilian real, Israeli shekel, Australian dollar, and other currencies, sales and marketing expenses reported in U.S. dollars could fluctuate.

General and Administrative

General and administrative expenses consist primarily of human resources, legal, and finance expenses. General and administrative expenses for the years ended December 31, 2016, 2015, and 2014 were $85.6 million, or 9% of revenue, $72.8 million, or 8% of revenue, and $66.9 million, or 8% of revenue, respectively.

General and administrative expenses increased by $12.8 million, or 18%, in 2016 as compared with 2015 (19% ex-currency). Personnel-related expenses increased by $2.6 million primarily due to head count increases related to our business acquisitions. Acquisition costs decreased by $3.2 million primarily due to lower expenses in 2016 related to the Optitex, Rialco, and anticipated acquisitions compared with acquisition costs related to the Reggiani, Matan, CTI, and Shuttleworth acquisitions, which closed in 2015. Expenses related to litigation and uncollectible accounts increased by $2.8 million. Stock-based compensation expense decreased by $1.8 million because actual forfeitures were greater than the previous forfeiture estimate that was used prior to implementation of ASU 2016-09 as more fully explained in Note 1—Basis of Presentation and Significant Accounting Policies, reduced probability of achieving performance awards, and decreased ESPP participation by employees compared to the prior year. The remaining increase of $3.5 million is primarily due to facilities and information technology expenses.

The estimated probability of achieving the Rialco, Optitex, Reggiani, DirectSmile, and CTI earnout performance targets increased during the year ended December 31, 2016, partially offset by a reduced probability of achieving the DIMS and Shuttleworth earnout performance targets, resulting in an increase in the associated liability and general and administrative expense of $6.8 million, including earnout interest accretion. A similar change in the estimated probability or actual achievement of several earnout performance targets during the year ended December 31, 2015 resulted in a reduction of the associated liability and general and administrative expense of $2.1 million in the prior year, net of earnout interest accretion.

General and administrative expenses increased by $5.9 million, or 9%, in 2015 as compared with 2014 (14% ex-currency). Personnel-related expenses increased by $0.8 million primarily due to head count increases related to our business acquisitions. Acquisition costs increased by $4.0 million primarily related to the acquisitions of Reggiani, Matan, Shuttleworth, and CTI. Expenses related to litigation and uncollectible accounts increased by $1.4 million. Legal expenses decreased by $1.9 million due to a decrease in significant litigation and settlement activity from the prior year. Stock-based compensation expense decreased by $3.4 million primarily due to forfeitures resulting from the resignation of our chief financial officer in January 2015 and decreased bonus program vesting, partially offset by increased ESPP expense due to our appreciating stock price, increased employee participation compared to the prior year, and the post-acquisition settlement of pre-acquisition stock options issued by an acquired business. The remaining increase of $3.3 million is primarily due to facilities and information technology expenses.

The estimated probability or actual achievement of several earnout performance targets was reduced during the year ended December 31, 2015, net of earnout interest accretion, resulting in a reduction of the associated liability and general and administrative expense of $2.1 million, net of earnout interest accretion. A similar change in the estimated probability or actual achievement of several earnout performance targets during the year ended December 31, 2014, net of earnout interest accretion, resulted in a reduction of the associated liability and general and administrative expense of $3.8 million.

We expect that if the U.S. dollar remains volatile against the Euro, British pound sterling, Indian rupee, Israeli shekel, Brazilian real, or other currencies, general and administrative expenses reported in U.S. dollars could fluctuate.

Stock-based Compensation

Stock-based compensation expense for the years ended December 31, 2016, 2015, and 2014 were $31.8 million, or 3% of revenue, $34.1 million, or 4% of revenue, and $36.1 million, or 5% of revenue, respectively.

We account for stock-based payment awards in accordance with ASC 718, Stock Compensation, which requires stock-based compensation expense to be recognized based on the fair value of such awards on the date of grant. We amortize compensation cost on a graded vesting basis over the vesting period, after assessing the probability of achieving requisite performance criteria with respect to performance-based awards. Stock-based compensation cost is recognized over the requisite service period for each separately vesting tranche of the award as though the award were, in substance, multiple awards. This has the impact of greater stock-based compensation expense during the initial years of the vesting period.

Stock-based compensation expense decreased by $2.2 million, or 7% in 2016 as compared with 2015 because forfeitures were greater than the previous forfeiture estimate that was used prior to implementation of ASU 2016-09 as more fully explained in Note 1—Basis of Presentation and Significant Accounting Policies, prior year forfeitures resulting from the resignation of our chief financial officer in January 2015, reduced probability of achieving performance awards, and decreased ESPP participation by employees compared to the prior year.

Stock-based compensation expense decreased by $2.0 million, or 6% in 2015 as compared with 2014 primarily due to forfeitures resulting from the resignation of our chief financial officer in January 2015 and decreased bonus program vesting, partially offset by increased ESPP expense due to our appreciating stock price, increased employee participation compared to the prior year, and the post-acquisition settlement of pre-acquisition stock options issued by an acquired business.

Amortization of Identified Intangibles

Amortization of identified intangibles for the years ended December 31, 2016, 2015, and 2014 were $39.6 million, or 4% of revenue, $26.5 million, or 3% of revenue, and $20.7 million, or 3% of revenue, respectively.

Amortization of identified intangibles increased by $13.0 million, or 49% in 2016 as compared with 2015 primarily due to intangible amortization of identified intangibles resulting from the Reggiani, Matan, CTI, Shuttleworth, Rialco, and Optitex acquisitions, partially offset by decreased amortization due to certain intangible assets from prior year acquisitions becoming fully amortized.

Amortization of identified intangibles increased by $5.8 million, or 28% in 2015 as compared with 2014 primarily due to intangible amortization of identified intangibles resulting from the Reggiani, Matan, CTI, and Shuttleworth acquisitions, partially offset by decreased amortization due to certain Radius Solutions Incorporated (“Radius”) and Raster Printers, Inc. (“Raster”) intangible assets becoming fully amortized during 2015.

Restructuring and Other

Restructuring and other costs for the years ended December 31, 2016, 2015, and 2014 were $6.7, $5.7, and $6.6 million, respectively. Restructuring and other charges include severance costs of $4.1, $3.0, and $3.2 million related to head count reductions of 128, 99, and 130 for the years ended December 31, 2016, 2015, and 2014, respectively. Severance costs include severance payments, related employee benefits, retention bonuses, outplacement fees, and relocation costs.

Facilities relocation and downsizing costs for the years ended December 31, 2016, 2015, and 2014 were $0.5, $0.9, and $2.0 million, respectively. Facilities restructuring and other costs are primarily related to the relocation of certain manufacturing and administrative locations to accommodate additional space requirements in 2016 and 2015, and consolidation of our German operations in 2014. Integration expenses for the years ended December 31, 2016, 2015, and 2014 of $2.1, $1.8, and $1.4 million, respectively, were required to integrate our business acquisitions.

Interest Expense

Interest expense for the years ended December 31, 2016, 2015, and 2014 was $17.7, $17.4, and $5.9 million, respectively.

Interest expense increased by $0.3 million in 2016 compared with 2015 primarily due to increased interest accretion on our Notes. Interest expense increased by $11.5 million in 2015 compared with 2014 primarily due to interest expense related to our Notes. Please refer to Note 7—Convertible Senior Notes, Note Hedges, and Warrants of the Notes to Consolidated Financial Statements for the terms and conditions of our Notes.

Interest Income and Other Income (Expense), Net

Interest income and other income (expense), net, includes interest and investment income, gains and losses from sales of our cash equivalents and short-term investments, and net foreign currency transaction gains and losses. Interest income and other income (expense), net, for the years ended December 31, 2016, 2015, and 2014 was $0.5, $(1.8), and $(5.5) million, respectively.

Interest income and other income (expense), net, was a gain of $0.5 million in 2016 compared with a loss of $1.8 million in 2015 primarily due to increased investment income of $1.7 million in 2016 due to increased interest rates and decreased foreign exchange losses of $0.4 million during 2016 resulting primarily from revaluation of foreign currency denominated net assets (mainly denominated in Euros, British pounds sterling, and Chinese renminbi).

Interest income and other income (expense), net, decreased by $3.7 million from a loss of $5.5 million in 2014 to a loss of $1.8 million in 2015 primarily because the foreign exchange loss decreased by $2.6 million resulting from revaluation of foreign currency denominated net assets (mainly denominated in Euros, British pounds sterling, Chinese renminbi, and Brazilian reais), partially offset by hedging gains. Investment income increased by $1.1 million from $1.4 million in 2014 to $2.5 million in 2015 primarily resulting from increased investments throughout 2015, which were made possible by the proceeds from the Notes.

Goodwill Assessment

We perform our annual goodwill impairment analysis in the fourth quarter of each year according to the provisions of ASC 350-20-35, Goodwill—Subsequent Measurement. A two-step impairment test of goodwill is required, unless the simplified method is elected. In the first step, the fair value of each reporting unit is compared to its carrying value. If the fair value exceeds carrying value, goodwill is not impaired and further testing is not required. If the carrying value exceeds fair value, then the second step of the impairment test is required to determine the implied fair value of the reporting unit's goodwill. The implied fair value of goodwill is calculated by deducting the fair value of all tangible and intangible net assets of the reporting unit, excluding goodwill, from the fair value of the reporting unit as determined in the first step. If the carrying value of the reporting unit's goodwill exceeds its implied fair value, then an impairment loss must be recorded equal to the difference.

Our goodwill valuation analysis is based on our respective reporting units (Industrial Inkjet, Productivity Software, and Fiery), which are consistent with our operating segments identified in Note 14—Segment Information, Geographic Regions, and Major Customers of the Notes to Consolidated Financial Statements. We determined the fair value of our reporting units as of December 31, 2016 by equally weighting the market and income approaches. Under the market approach, we estimated fair value based on market multiples of revenue or earnings of comparable companies. Under the income approach, we estimated fair value based on a projected cash flow method using a discount rate determined by our management to be commensurate with the risk inherent in our current business model. Based on our valuation results, we have determined that the fair values of our Industrial Inkjet, Productivity Software, and Fiery reporting units exceed their carrying values by $575, $444, and $515 million, respectively, or 151%, 267%, and 533%, respectively.

Since fair values were determined using a weighting of the market and income approaches, we reviewed the sensitivity of the market multiple and discount rate to evaluate the sensitivity of the Industrial Inkjet, Productivity Software, and Fiery valuations. The impact of a change in the market multiple of 10% results in an increase or decrease in Industrial Inkjet, Productivity Software, and Fiery fair values of 5.0%. Likewise, the impact of a change in the discount rate of one percentage point results in an increase in the Industrial Inkjet, Productivity Software, and Fiery fair values of 12%, 10%, and 8%, respectively, or a decrease of 8%, 7%, and 6%, respectively. Consequently, we have concluded that no reasonably possible changes would reduce the fair value of the reporting units to such a level that it would cause a failure in step one of the impairment analysis.

Income before Income Taxes

Income before income taxes for the years ended December 31, 2016, 2015, and 2014 were as follows (in thousands):

	2016	2015	2014
U.S.	$ 8,254	$ 9,311	$15,090
Foreign	31,128	28,211	26,997
Total	$39,382	$37,522	$42,087

For the year ended December 31, 2016, pretax net income of $39.4 million consisted of U.S. and foreign pretax net income of $8.3 and $31.1 million, respectively. The pretax net income attributable to U.S. operations included amortization of identified intangibles of $7.6 million, stock-based compensation of $31.8 million, restructuring and other costs of $3.8 million, acquisition-related costs of $0.6 million, litigation settlement expense of $1.0 million, and interest expense and amortization of debt issuance costs related to our Notes of $16.3 million, and the change in fair value of contingent consideration of $0.6 million. The pretax net income attributable to foreign operations included amortization of identified intangibles of $31.9 million, restructuring and other costs of $2.9 million, acquisition-related costs of $1.6 million, earnout interest accretion of $2.7 million, and the change in fair value of contingent consideration of $3.7 million. The exclusion of these items from net income would result in a U.S. and foreign pretax net income of $70.0 and $73.9 million, respectively, for the year ended December 31, 2016.

For the year ended December 31, 2015, pretax net income of $37.5 million consisted of U.S. and foreign pretax net income of $9.3 and $28.2 million, respectively. The pretax net income attributable to U.S. operations included amortization of identified intangibles of $7.8 million, stock-based compensation of $34.1 million, restructuring and other costs of $2.4 million, acquisition-related costs of $1.0 million, litigation settlement expense of $0.6 million, and interest expense and amortization of debt issuance costs related to our Notes of $15.7 million, partially offset by the change in fair value of contingent consideration of $0.2 million. The pretax net income attributable to foreign operations included amortization of identified intangibles of $18.7 million, restructuring and other costs of $3.3 million, acquisition-related costs of $4.5 million, and earnout interest accretion of $1.4 million, partially offset by the change in fair value of contingent consideration of $3.3 million. The exclusion of these items from net income would result in a U.S. and foreign pretax net income of $70.7 and $52.8 million, respectively, for the year ended December 31, 2015.

For the year ended December 31, 2014, pretax net income of $42.1 million consisted of U.S. and foreign pretax net income of $15.1 and $27.0 million, respectively. The pretax net income attributable to U.S. operations included amortization of identified intangibles of $7.1 million, stock-based compensation of $36.1 million, restructuring and other costs of $2.2 million, acquisition-related costs of $1.1 million, litigation settlement expense of $0.9 million, and interest expense and amortization of debt issuance costs related to our Notes of $4.7 million, partially offset by the change in fair value of contingent consideration of $0.4 million. The pretax net income attributable to foreign operations included amortization of identified intangibles of $13.6 million, restructuring and other costs of $4.4 million, acquisition-related costs of $0.4 million, and earnout interest accretion of $0.6 million, partially offset by the change in fair value of contingent consideration of $4.1 million. The exclusion of these items from net income would result in a U.S. and foreign pretax net income of $66.8 and $41.9 million, respectively, for the year ended December 31, 2014.

Provision for (Benefit from) Income Taxes

We recorded a tax benefit of $6.2 million in 2016 on pre-tax income of $39.4 million and tax provisions of $4.0 and $8.4 million on pre-tax income of $37.5 and $42.1 million in 2015, and 2014, respectively.

The provisions for income taxes before significant items were $12.0, $10.3, and $14.7 million for the years ended December 31, 2016, 2015, and 2014 respectively. Primary differences between our recorded tax provision rate and the U.S. statutory rate of 35% include tax benefits related to credits for research and development costs, lower taxes on permanently reinvested foreign earnings, tax effects of stock-based compensation expense pursuant to ASC 718-740, Stock Compensation—Income Taxes, and changes in the valuation allowance for financial reporting purposes.

Our provision for income taxes before significant items is reconciled to our provision for (benefit from) income taxes for the years ended December 31, 2016, 2015, and 2014 as follows (in millions):

	2016	2015	2014
Provision for income taxes before significant items	$ 12.0	$10.3	$14.7
Interest related to unrecognized tax benefits	0.4	0.3	0.4
Benefit related to increased value of intangibles	—	—	(3.1)
Benefit related to stock based compensation, including ESPP dispositions	(2.5)	(0.5)	(0.6)
Benefit related to reversals of uncertain tax positions	(15.7)	(5.5)	(2.6)
Benefit from reversals of accrued interest related to uncertain tax positions	(0.4)	(0.6)	(0.2)
Other significant items	—	—	(0.2)
Provision for (benefit from) income taxes	$ (6.2)	$ 4.0	$ 8.4

During the year ended December 31, 2016, we recognized a $16.6 million tax benefit (including state tax benefit) from the release of previously unrecognized tax benefits due to the expiration of U.S. federal, state, and foreign statutes of limitations, of which $10.3 million related to the 2012 sale of our Foster City building and land. During the year ended December 31, 2014, we recognized a $3.1 million tax benefit related to the increased valuation of intangible assets for Brazilian tax reporting resulting from the merger of our Brazilian subsidiaries.

We earn a significant amount of our operating income outside the U.S., which is permanently reinvested in foreign jurisdictions. Of the income generated in jurisdictions with tax rates materially lower than the statutory U.S. tax rate of 35%, most is earned in the Netherlands, Spain, U.K., Italy, and Cayman Islands. In 2016, 2015 and 2014, we realigned the ownership of certain Productivity Software intellectual property to augment operational synergies and parallel both our worldwide intellectual property ownership and our worldwide supply chain. Our effective tax rate could fluctuate significantly and be adversely impacted if anticipated earnings in the Netherlands, Spain, Italy, U.K., and the Cayman Islands are proportionally lower than current projections and earnings in all other jurisdictions are proportionally higher than current projections.

While we currently do not foresee a need to repatriate the earnings of foreign operations, should we require more capital in the U.S. than is generated by our U.S. operations, we may elect to repatriate funds held in our foreign jurisdictions or raise capital in the U.S. through debt or equity issuances. These alternatives could result in higher effective tax rates, the cash payments of taxes and/or increased interest expense. As of December 31, 2016, we have permanently reinvested $164.6 million of unremitted foreign earnings. Should these earnings be remitted to the U.S., the tax on these earnings would be $34.6 million.

We assess the likelihood that our deferred tax assets will be recovered from future taxable income by considering both positive and negative evidence relating to their recoverability. If we believe that recovery of these deferred tax assets is not more likely than not, we establish a valuation allowance. To the extent we increase a valuation allowance, we will include an expense within the tax provision in the Consolidated Statement of Operations in the period in which such determination is made.

Significant judgment is required in determining any valuation allowance recorded against deferred tax assets. In assessing the need for a valuation allowance, we considered all available evidence, including recent operating results, projections of future taxable income, our ability to utilize loss and credit carryforwards, and the feasibility of tax planning strategies. A significant piece of objective positive evidence evaluated for jurisdictions in a net deferred tax asset position was cumulative pre-tax income during the three years ended December 31, 2016. In addition, we considered that loss and credit carryforwards have not expired unused and a majority of our loss and credit carryforwards will not expire prior to 2022.

As of December 31, 2016, we have determined that it is more likely than not that we will realize the benefit related to our deferred tax assets, except for a valuation allowance related to the realization of existing California, Luxembourg, Israel, Netherlands, and Turkey deferred tax assets.

Unaudited Non-GAAP Financial Information

To supplement our consolidated financial results prepared in accordance with GAAP, we use non-GAAP measures of net income and earnings per diluted share that are GAAP net income and earnings per diluted share adjusted to exclude certain costs, expenses, and gains.

We believe the presentation of non-GAAP net income and non-GAAP earnings per diluted share provides important supplemental information regarding certain costs, expenses, gains, and significant items that we believe are important to understanding financial and business trends relating to our financial condition and results of operations. Non-GAAP net income and non-GAAP earnings per diluted share are among the primary indicators used by management as a basis for planning and forecasting future periods and by management and our Board of Directors to determine whether our operating performance has met specified targets and thresholds. Management uses non-GAAP net income and non-GAAP earnings per diluted share when evaluating operating performance because it believes the exclusion of the items described below, for which the amounts and/or timing may vary significantly depending on our activities and other factors, facilitates comparability of our operating performance from period to period. We have chosen to provide this information to investors so they can analyze our operating results in the same way that management does and use this information in their assessment of our business and the valuation of our Company.

Use and Economic Substance of Non-GAAP Financial Measures

We compute non-GAAP net income and non-GAAP earnings per diluted share by adjusting GAAP net income and GAAP earnings per diluted share to remove the impact of the amortization of acquisition-related intangibles, stock-based compensation expense, non-cash settlement of vacation liabilities, restructuring and other expense, acquisition-related transaction expenses, costs to integrate such acquisitions into our business, changes in the fair value of contingent consideration including the related foreign exchange fluctuation impact, litigation settlement charges, and non-cash interest expense related to our Notes. We use a static non-GAAP tax rate of 19%, which we believe reflects the long-term average tax rate based on our international structure and geographic distribution of revenue and profit.

Ex-Currency. To better understand trends in our business, we believe it is helpful to adjust our Consolidated Statements of Operations to exclude the impact of year-over-year changes in the translation of foreign currencies into U.S. dollars. This is a non-GAAP measure that is calculated by adjusting revenue, gross profit, and operating expenses by using historical exchange rates in effect during the comparable prior period and removing the balance sheet currency remeasurement impact from interest income and other income (expense), net, including removal of any hedging gains and losses. We refer to these adjustments as "ex-currency." Management believes the ex-currency measures provide investors with an additional perspective on year-over-year financial trends and enables investors to analyze our operating results in the same way management does. The year-over-year currency impact can be determined as the difference between year-over-year actual growth rates and year-over-year ex-currency growth rates.

These excluded items are described below:

- *Intangible assets acquired to date are being amortized* on a straight-line basis.
- *Stock-based compensation expense* recognized in accordance with ASC 718.
- *Non-cash settlement of vacation liabilities* through the issuance of RSUs, which is not included in the GAAP presentation of our stock-based compensation expense.
- Restructuring and other consists of:
  - *Restructuring charges* incurred as we consolidate the number and size of our facilities and, as a result, reduce the size of our workforce.
  - *Expenses incurred to integrate businesses acquired* of \$2.1, \$1.8, and \$1.4 million during the years ended December 31, 2016, 2015, and 2014, respectively.
- *Acquisition-related transaction costs* associated with businesses acquired during the periods reported and anticipated transactions of \$2.2, \$5.5, and \$1.5 million during the years ended December 31, 2016, 2015, and 2014, respectively.
- *Changes in fair value of contingent consideration.* Our management determined that we should analyze the total return provided by the investment when evaluating operating results of an acquired entity. The total return consists of operating profit generated from the acquired entity compared to the purchase price paid, including the final amounts paid for contingent consideration without considering any post-acquisition adjustments related to changes in the fair value of the contingent consideration. Because our management believes the final purchase price paid for the acquisition reflects the accounting value assigned to both contingent consideration and to the intangible assets, we exclude the GAAP impact of any adjustments to the fair value of acquisition-related contingent consideration from the operating results of an acquisition in subsequent periods, including the related foreign exchange fluctuation impact. We believe this approach is useful in understanding the long-term return provided by our acquisitions and that investors benefit from a supplemental non-GAAP financial measure that excludes the impact of this adjustment.
- *Non-cash interest expense on our Notes.* Our Notes may be settled in cash on conversion. We are required to separately account for the liability (debt) and equity (conversion option) components of the Notes in a manner that reflects our non-convertible debt borrowing rate. Accordingly, for GAAP purposes, we are required to amortize a debt discount equal to the fair value of the conversion option as interest expense on our \$345 million of 0.75% convertible senior notes that were issued in a private placement in September 2014 over the term of the Notes.
- *Litigation settlements.*

  In addition, we settled or accrued reserves related to several unrelated litigation claims in 2016, 2015, and 2014 in aggregate amounts of \$1.0, \$0.6, and \$0.9 million, respectively.
- *Tax effect of non-GAAP adjustments.* We use a constant non-GAAP tax rate of 19%, which we believe reflects the long-term average tax rate based on our international structure and geographic distribution of revenue and profit. The long-term average tax rate is calculated in accordance with the principles of ASC 740 to estimate the non-GAAP income tax provision in each jurisdiction in which we operate,

after excluding the tax effect of the non-GAAP items described above and $10.3 million of previously unrecognized tax benefits associated with the 2012 sale of our Foster City building and land which we recognized in the year ended December 31, 2016.

Usefulness of Non-GAAP Financial Information to Investors

These non-GAAP measures, including ex-currency, are not in accordance with or an alternative to GAAP and may be materially different from other non-GAAP measures, including similarly titled non-GAAP measures, used by other companies. The presentation of this additional information should not be considered in isolation from, as a substitute for, or superior to, revenue, gross profit, operating expenses, net income, or earnings per diluted share prepared in accordance with GAAP. Non-GAAP financial measures have limitations in that they do not reflect certain items that may have a material impact upon our reported financial results. We expect to continue to incur expenses of a nature similar to the non-GAAP adjustments described above, and exclusion of these items from our non-GAAP net income and non-GAAP earnings per diluted share should not be construed as an inference that these costs are unusual, infrequent, or non-recurring.

Reconciliation of GAAP Net Income to Non-GAAP Net Income (unaudited)

	For the years ended December 31,			Ex-Currency
(in millions, except per share data)	2016	2015	2014	2016
Net income	$ 45.5	$ 33.5	$ 33.7	$ 45.5
Amortization of identified intangible assets	39.6	26.5	20.7	39.6
Ex-currency adjustment	—	—	—	1.7
Stock-based compensation expense	31.8	34.1	36.1	31.8
Non-cash settlement of vacation liabilities by issuing RSUs	3.1	1.3	—	3.1
Restructuring and other	6.7	5.7	6.6	6.7
General and administrative:				
Acquisition-related transaction costs	2.2	5.5	1.5	2.2
Change in fair value of contingent consideration	6.9	(2.1)	(3.8)	6.9
Litigation reserve provisions, net of releases	1.0	0.6	0.9	1.0
Interest income and other income (expense), net:				
Non-cash interest expense related to our Notes	12.4	11.8	3.5	12.4
Foreign exchange fluctuation related to contingent consideration	1.1	—	—	1.1
Balance sheet currency remeasurement impact	—	—	—	2.8
Tax effect of non-GAAP net income	(33.6)	(19.0)	(12.1)	(34.4)
Non-GAAP net income	$116.8	$ 97.9	$ 87.1	$120.5
Non-GAAP net income per diluted share	$ 2.44	$ 2.03	$ 1.80	$ 2.52
Shares for purposes of computing diluted non-GAAP net income per share	47.8	48.2	48.4	47.8

RECONCILIATION OF GAAP REVENUE BY OPERATING SEGMENT TO NON-GAAP EX-CURRENCY
(unaudited)

	For the years ended December 31,										
	GAAP		Ex-Currency			GAAP				Ex-Currency	
								Change from 2015 GAAP		Change from 2015 GAAP	
(in millions)	GAAP 2016	Percent of total	Ex-Currency	2016	Percent of total	GAAP 2015	Percent of total	$	%	$	%
Industrial Inkjet	$562,583	57%	7,735	$ 570,318	57%	$447,705	51%	$114,878	26%	$122,613	27%
Productivity Software . .	151,737	15	2,109	153,846	15	135,350	15	16,387	12	18,496	14
Fiery	277,745	28	84	277,829	28	299,458	34	(21,713)	(7)	(21,629)	(7)
Total revenue	$992,065	100%	$9,928	$1,001,993	100%	$882,513	100%	$109,552	12%	$119,480	14%

	For the years ended December 31,										
	GAAP		Ex-Currency			GAAP				Ex-Currency	
								Change from 2015 GAAP		Change from 2015 GAAP	
(in millions)	GAAP 2016	Percent of total	Ex-Currency	2016	Percent of total	GAAP 2015	Percent of total	$	%	$	%
Americas	$500,411	50%	388	$ 500,799	50%	$473,599	54%	$ 26,812	6%	$ 27,200	6%
EMEA	360,305	37	7,283	367,588	37	291,103	33	69,202	24	76,485	26
APAC	131,349	13	2,257	133,606	13	117,811	13	13,538	11	15,795	13
Total revenue	$992,065	100%	$9,928	$1,001,993	100%	$882,513	100%	$109,552	12%	$119,480	14%

RECONCILIATION OF GAAP REVENUE & GROSS PROFIT BY OPERATING SEGMENT TO NON-GAAP EX-CURRENCY
(unaudited)

	For the years ended December 31,			
	GAAP	Ex-Currency Adjustments	Ex-Currency	GAAP
(in millions)	2016		2016	2015
Industrial Inkjet				
Revenue	$562,583	$7,735	$570,318	$447,705
Gross profit	199,448	$4,205	203,653	152,918
Gross profit percentages	35.5%		35.7%	34.2%
Productivity Software				
Revenue	$151,737	$2,109	$153,846	$135,350
Gross profit	114,179	$1,255	115,434	99,278
Gross profit percentages	75.2%		75.0%	73.3%
Fiery				
Revenue	$277,745	$ 84	$277,829	$299,458
Gross profit	198,322	$ 82	198,404	210,140
Gross profit percentages	71.4%		71.4%	70.2%

A reconciliation of operating segment gross profit to the consolidated statements of operations for the years ended December 31, 2016 and 2015 is as follows:

	For the years ended December 31,			
	GAAP	Ex-Currency Adjustments	Ex-Currency	GAAP
(in millions)	2016		2016	2015
Segment gross profit	$511,949	$5,460	$517,409	$462,336
Stock-based compensation expense	(2,784)		(2,784)	(2,837)
Other items excluded from segment profit	(475)		(475)	(115)
Gross profit	$508,690	$5,460	$514,150	$459,384

RECONCILIATION OF GAAP OPERATING EXPENSES TO NON-GAAP EX-CURRENCY (unaudited)

	For the years ended December 31,							
	GAAP	Ex-Currency		GAAP			Ex-Currency	
					Change from 2015 GAAP		Change from 2015 GAAP	
(in thousands)	2016	Ex-Currency Adjustments	2016	2015	$	%	$	%
Research and development	$151,192	$1,283	$152,475	$141,364	$ 9,828	7%	$11,111	8%
Sales and marketing	169,042	1,884	170,926	156,339	12,703	8	14,587	9
General and administrative	85,614	1,206	86,820	72,797	12,817	18	14,023	19
Amortization of identified intangibles	39,560	237	39,797	26,510	13,050	49	13,287	50
Restructuring and other	6,729	122	6,851	5,731	998	17	1,120	20
Total operating expenses	$452,137	$4,732	$456,869	$402,741	$49,396	12%	$54,128	13%

Critical Accounting Policies

The preparation of consolidated financial statements requires estimates and judgments that affect the reported amounts of assets, liabilities, revenue, expenses, and related disclosure of contingent assets and liabilities. We evaluate our estimates, including those related to revenue recognition, bad debts, inventory valuation and purchase commitment reserves, warranty obligations, litigation, restructuring activities, fair value of financial instruments, stock-based compensation, income taxes, valuation of goodwill and intangible assets, business combinations, build-to-suit leases, and contingencies on an ongoing basis. Estimates are based on historical and current experience, the impact of the current economic environment, and various other assumptions believed to be reasonable under the circumstances at the time of the estimate, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Our critical accounting policies and estimates are as follows:

- revenue recognition;
- allowances for doubtful accounts,
- inventory valuation and purchase commitment reserves,
- warranty reserves,
- litigation accruals,
- restructuring reserves,
- fair value of financial instruments;
- accounting for stock-based compensation;
- accounting for income taxes;
- valuation analyses of goodwill and intangible assets;
- business combinations;
- build-to-suit leases; and
- determination of functional currencies for consolidating international operations.

Revenue recognition. Significant management judgments and estimates must be made and used in connection with the revenue recognized in any accounting period. Please refer to Note 1—The Company and its Significant Accounting Policies of the Notes to Consolidated Financial Statements for a more thorough and complete description of our revenue recognition accounting policy. For purposes of evaluating and understanding the judgments required, our revenue recognition policy is summarized below.

Product revenue includes hardware (industrial digital inkjet printers including components placed under maintenance agreements, ink required for industrial digital inkjet printers, design-licensed solutions including upgrades, and DFEs), software licensing and development, and royalties. Service revenue includes software license maintenance agreements, industrial digital inkjet printer maintenance and service, customer support, training, and consulting. The timing of revenue recognition for each of these categories is discussed below.

We recognize revenue on the sale of printers, ink, and DFEs in accordance with the provisions of SEC Staff Accounting Bulletin ("SAB") 104, Revenue Recognition, and when applicable, ASC 605-25, Revenue Recognition—Multiple-Element Arrangements. We recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collection is reasonably assured. Products generally must be shipped against written purchase orders. We use either a binding purchase order or signed contract as evidence of an arrangement. Sales to some of the leading printer manufacturers are evidenced by a master agreement governing the relationship together with a binding purchase order. Sales to our resellers are also evidenced by binding purchase orders or signed contracts and do not generally contain rights of return or price protection.

For multiple element arrangements, we allocate revenue to the software deliverables and the non-software deliverables as a group based on the relative selling prices of all of the deliverables in the arrangement. For non-software deliverables, we allocate the arrangement consideration based on the relative selling price of the deliverables using best estimate of the sales price ("BESP"). For software deliverables (including post-contract customer support, professional services, hosting, and training), we generally use vendor-specific objective evidence of the fair value of the sales price ("VSOE"), when available. The selling price for each element is based upon the following hierarchy: VSOE if available, third party evidence ("TPE") if VSOE is not available, or BESP if neither VSOE nor TPE are available.

We have established our ability to produce estimates sufficiently dependable to require adoption of the percentage of completion method with respect to certain fixed price contracts where we provide information technology system development and implementation services. Revenue on such contracts is recognized over the contract term based on the percentage of development and implementation services that are provided during the period compared with the total estimated development and implementation services to be provided over the entire contract. These services require that we perform significant, extensive, and complex design, development, modification, or implementation activities of our customers' systems. Performance will often extend over long periods, and our right to receive future payment depends on our future performance in accordance with these agreements.

The key estimates and assumptions and corresponding uncertainties for recognizing revenue are summarized as follows:

Key Estimates and Assumptions	Key Uncertainties
We establish VSOE of selling price using the price charged for a deliverable when sold separately and generally evidenced by a substantial majority of historical stand-alone transactions falling within a reasonably narrow range. In addition, we consider major service type, customer type, and other variables in determining VSOE. Our revenue estimates and assumptions are based on our ability to assert and maintain VSOE. BESP is generally evidenced by a majority of historical transactions falling within a reasonable price range. We also consider multiple factors, including, but not limited to, cost of products, gross margin objectives, historical pricing practices, customer type, and distribution channels. Our revenue estimates and assumptions are based on our ability to maintain consistent BESP.	As our business and offerings evolve over time, modifications to our pricing and discounting methodologies, changes in the scope and nature of service offerings and/or changes in customer segmentation may result in a lack of consistency required to establish and/or maintain VSOE or to maintain consistent BESP. Additionally, technological changes resulting in variability in product costs and gross margins may require changes to our BESP model. Changes in BESP may result in a different allocation of revenue to the deliverables in multiple-element arrangements. These factors, among others, may adversely impact the amount of revenue and gross margins we report in a particular period.
Distributors and resellers participate in various marketing and other programs, and we maintain estimated accruals and allowances for these programs based on contractual terms and historical experience.	If we experience changes in market or competitive conditions resulting in credits issued to our distributors and partners deviating significantly from our estimates, our revenue may be adversely impacted.
If the arrangement includes a customer-negotiated refund or right of return relative to the delivered item and the delivery and performance of the undelivered item is considered probable and substantially in our control, the delivered element constitutes a separate unit of accounting. We limit revenue recognition for delivered elements to the amount that is not contingent on the future delivery of products or services, future performance obligations, or subject to customer-specified return or refund privileges.	Revenue recognition is dependent on proper identification of the separate units of accounting in an arrangement and determining whether they have stand-alone value. Significant contract interpretation can be required to determine the appropriate accounting, including whether the deliverables specified in a multiple element arrangement should be treated as separate units of accounting for revenue recognition purposes, and, if so, how the price should be allocated among the elements and when to recognize revenue for each element.
The percentage of completion method involves recognizing probable and reasonably estimable revenue using the percentage of services completed based on the current cumulative cost as a percentage of the estimated total cost, using a reasonably consistent profit margin over the period.	Due to the long-term nature of these projects, developing the estimates of costs often requires significant judgment. Factors that must be considered in estimating the progress of work completed and ultimate cost of the projects include, but are not limited to, the availability of labor and labor productivity, the nature and complexity of the work to be performed, and the impact of delayed performance. If changes occur in delivery, productivity, or other factors used in developing the estimates of costs or revenue, we revise our cost and revenue estimates, which may result in increases or decreases in revenue and costs. Such revisions are reflected in net income in the period in which the facts that give rise to that revision become known.

Allowances for doubtful accounts. We establish an allowance for doubtful accounts to ensure that trade receivables are not overstated due to uncollectibility. Our accounts receivable balance was $220.8 million, net of allowance for doubtful accounts and revenue reserves of $23.3 million, as of December 31, 2016. To ensure that we have established an adequate allowance for doubtful accounts, management analyzes accounts receivable and historical bad debts, customer concentrations, customer creditworthiness, current economic trends and macroeconomic conditions, changes in customer payment terms, the length of time receivables are past due, and significant one-time events. We record specific reserves for individual accounts when we become aware of specific customer circumstances, such as bankruptcy filings, deterioration in the customer's operating results or financial position, or potential unfavorable outcomes from disputes with customers or vendors.

Inventory valuation. Management estimates potential future inventory obsolescence and noncancellable purchase commitments to properly value inventory and establish adequate reserves for potential losses on purchase commitments. Significant management judgment and estimates must be made related to inventory valuation including the evaluation of current economic trends, changes in customer demand, product design changes, product life and demand, and the acceptance of our products.

Warranty reserves. Our Industrial Inkjet printer products are generally accompanied by a 12-month limited warranty, which covers both parts and labor. Our Fiery DFE products are generally accompanied by a 12 to 15-month limited warranty. In accordance with ASC 450-30, Loss Contingencies, an accrual is established when the warranty liability is estimable and probable based upon historical experience. A provision for estimated future warranty work is recorded in cost of revenue when revenue is recognized.

The warranty liability is reviewed regularly and periodically adjusted to reflect changes in warranty estimates. Significant management judgments and estimates must be made in connection with establishing and updating warranty reserves including estimated potential inventory return rates and replacement or repair costs. Warranty reserves were $10.3 million as of December 31, 2016.

Litigation accruals. We may be involved, from time to time, in a variety of claims, lawsuits, investigations, or proceedings relating to contractual disputes, securities laws, intellectual property rights, employment, or other matters that may arise in the normal course of business. We assess our potential liability in each of these matters by using the information available to us. We develop our views on estimated losses in consultation with inside and outside counsel, which involves a subjective analysis of potential results and various combinations of appropriate litigation and settlement strategies. We accrue estimated losses from contingencies if a loss is deemed probable and can be reasonably estimated.

The material assumptions used by management to estimate the required litigation accrual include:

- communication with our external attorneys regarding the expected duration of the lawsuit, the potential outcome of the lawsuit, and the likelihood of settlement;
- likelihood of assertion of unasserted claims and assessments;
- our strategy regarding the lawsuit;
- deductible amounts under our insurance policies; and
- past experiences with similar lawsuits.

Litigation is inherently unpredictable, and while we believe that we have valid defenses with respect to legal matters pending against us, our financial statements could be materially affected in any particular period by the unfavorable resolution of one or more of these contingencies or because of the diversion of management's attention and the incurrence of significant expenses.

Restructuring reserves. We have engaged, and may continue to engage, in restructuring actions, which require management to utilize significant estimates related to the timing and the expense for severance and other employee separation costs, realizable values of assets made obsolete, lease cancellation, facility downsizing, and other exit costs. If actual amounts differ from our estimates, the amount of the restructuring charges could be materially impacted.

Fair value of financial instruments. We invest our excess cash on deposit with major banks in money market, U.S. Treasury and government-sponsored entity, corporate debt, municipal, asset-backed, and mortgage-backed residential securities. By policy, we invest primarily in high-grade marketable securities. We are exposed to credit risk in the event of default by the financial institutions or issuers of these investments to the extent of amounts recorded in the Consolidated Balance Sheets.

As a basis for considering market participant assumptions in fair value measurements, ASC 820 establishes a three-tier fair value hierarchy as more fully defined in Note 6—Investments and Fair Value Measurements of the Notes to Consolidated Financial Statements. We utilize the market approach to measure fair value of our fixed income securities. The "market approach" is a valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. The fair value of our fixed income securities are obtained using readily-available market prices from a variety of industry standard data providers, large financial institutions, and other third-party sources for the identical underlying securities.

As part of this process, we engaged pricing services to assist management in its analysis. All estimates, key assumptions, and forecasts were either provided by or reviewed by us. While we chose to utilize third party pricing services, the impairment analysis and related valuations represent the conclusions of management and not the conclusions or statements of any third party.

Specifically, we obtain the fair value of our Level 2 financial instruments from third party asset managers, the custodian bank, and the accounting service provider. Independently, these service providers use professional pricing services to gather pricing data, which may include quoted market prices for identical or comparable instruments or inputs other than quoted prices that are observable either directly or indirectly.

The validation procedures performed by management include the following:

- obtaining an understanding of the pricing service's valuation methodologies, including the timing and frequency,
- evaluating the type, nature, and complexity of our investments in financial instruments,
- evaluating the activity level in the market for the type of securities in which we have invested including the volatility of price movements requiring analysis, and
- validating the quoted market prices provided by our service providers by completing a three-way reconciliation, comparing the assessment of the fair values provided by the asset manager, the custody bank, and the accounting book of record provider for each portfolio.

Obtaining an understanding of these valuation risks allows us to respond by developing internal controls that appropriately mitigate any risks identified. If material discrepancies are noted when comparing the valuations on a security-by-security basis, then we conduct detailed pricing analysis, search alternative pricing sources, or require the service provider to provide an in-depth price analysis prior to recording the fair value in our financial statements. If we determine that a price provided by the third party pricing services is not reflective of the fair value of the security, we require the custodian bank or accounting service provider to update their price file accordingly.

At least annually, we review the pricing practices followed by the various entities involved in determining the fair value of our securities; including comparing their process and practices to those followed by other external third party pricing vendors. Also, at least annually, we review the internal controls provided in place at the custodian bank and the accounting service provider.

Accounting for stock-based compensation. We account for stock-based compensation in accordance with ASC 718, which requires stock-based compensation expense to be recognized based on the fair value of such awards on the date of grant. We amortize stock-based compensation expense on a graded vesting basis over the vesting period, after assessing the probability of achieving the requisite performance criteria with respect to performance-based awards. Stock-based compensation expense is recognized over the requisite service period for each separately vesting tranche as though the award were, in substance, multiple awards. Forfeitures have been estimated at the grant date and revised on a cumulative basis, if necessary, in subsequent periods if actual forfeitures differ from those estimates. We used historical data and future expectations of employee turnover to estimate forfeitures. Upon adoption of ASU 2016-09, Stock Compensation—Improvements to Employee Share Based Payment Accounting, in 2016, we elected to account for forfeitures when they occur instead of estimating the expected forfeiture rate. We must use our judgment in determining and applying the assumptions needed for the valuation of employee stock options, RSUs, and issuance of common stock under our ESPP.

We use the Black-Scholes-Merton ("BSM") option pricing model to value stock-based compensation for all equity awards, except market-based awards. Market-based awards are valued using a Monte Carlo valuation model. Option pricing models were developed to estimate the value of traded options that have no vesting or hedging restrictions and are fully transferable. The BSM model determines the fair value of stock-based payment awards based on the stock price on the date of grant and is affected by assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, our expected stock price volatility over the term of the awards, expected term, interest rates, and actual and projected employee stock option exercise behavior. Expected volatility is based on the historical volatility of our stock over a preceding period commensurate with the expected term of the option. The expected term is based on management's consideration of the historical life, vesting period, and contractual period of the options granted. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant. Expected dividend yield was not considered in the option pricing formula since we do not pay dividends and have no current plans to do so in the future.

Accounting for income taxes. Significant management judgment is required to determine our provision for income taxes, our deferred tax assets and liabilities, and any valuation allowance recorded against our deferred tax assets. We estimate our actual current tax expense, including permanent charges and benefits, and temporary differences resulting from differing treatment of items, such as deferred revenue for tax and book accounting purposes. These temporary differences result in deferred tax assets and liabilities, which are included within our Consolidated Balance Sheets.

We assess the likelihood that our deferred tax assets will be recovered from future taxable income by considering both positive and negative evidence relating to their recoverability. If we believe that recovery of these deferred tax assets is not more likely than not, we establish a valuation allowance. To the extent that we increase a valuation allowance in a period, we include an expense in the Consolidated Statement of Operations in the period in which such determination is made.

In assessing the need for a valuation allowance, we considered all available evidence, including recent operating results, projections of future taxable income, our ability to utilize loss and credit carryforwards, and the feasibility of tax planning strategies. A significant piece of objective positive evidence evaluated for jurisdictions in a net deferred tax asset position was cumulative pre-tax income over the three years ended December 31, 2016. In addition, we considered that loss and credit carryforwards have not expired unused and a majority of our loss and credit carryforwards will not expire prior to 2022.

As of December 31, 2016, we have determined that it is more likely than not that we will realize the benefit related to our deferred tax assets, except for a valuation allowance related to the realization of existing California, Luxembourg, Israel, Netherlands, and Turkey deferred tax assets.

Deferred tax assets, net of deferred tax liabilities, as of December 31, 2016 were $42.1 million, net of our valuation allowance of $42.4 million.

In accordance with ASC 740-10-25-5 through 17, Income Taxes—Basic Recognition Threshold, we account for uncertainty in income taxes by recognizing a tax position only when it is more likely than not that the tax position, based on its technical merits, will be sustained upon ultimate settlement with the applicable tax authority. The tax benefit to be recognized is the largest amount of tax benefit that is greater than fifty percent likely of being realized upon ultimate settlement with the applicable tax authority that has full knowledge of all relevant information.

Significant management judgment is required in evaluating our uncertain tax positions. Our gross unrecognized benefits are $35.9 million as of December 31, 2016. Our evaluation of uncertain tax positions is based on factors including, but not limited to, changes in facts or circumstances, changes in tax law, effectively settled issues under audit, and new audit activity. If actual settlements differ from these estimates, or we adjust these estimates in future periods, we may need to recognize additional tax benefits or charges that could materially impact our financial position and results of operations.

As of December 31, 2016, we have permanently reinvested $164.6 million of unremitted foreign earnings. Should these earnings be remitted to the U.S., the tax on these earnings would be $34.6 million.

Valuation analyses of goodwill and intangible assets. We perform our annual goodwill impairment analysis in the fourth quarter of each year according to the provisions of ASC 350-20-35. A two-step impairment test of goodwill is required, unless the simplified method is elected. In the first step, the fair value of each reporting unit is compared to its carrying value. If the fair value exceeds carrying value, goodwill is not impaired and further testing is not required. If the carrying value exceeds fair value, then the second step of the impairment test is required to determine the implied fair value of the reporting unit's goodwill. The implied fair value of goodwill is calculated by deducting the fair value of all tangible and intangible net assets of the reporting unit, excluding goodwill, from the fair value of the reporting unit as determined in the first step. If the carrying value of the reporting unit's goodwill exceeds its implied fair value, then an impairment loss must be recorded equal to the difference.

Our goodwill valuation analysis is based on our respective reporting units (Industrial Inkjet, Productivity Software, and Fiery), which are consistent with our operating segments identified in Note 14—Segment Information, Geographic Regions, and Major Customers of the Notes to Consolidated Financial Statements. We determined the fair value of our reporting units as of December 31, 2016 by equally weighting the market and income approaches. Under the market approach, we estimated fair value based on market multiples of revenue or earnings of comparable companies. Under the income approach, we estimated fair value based on a projected cash flow method using a discount rate determined by our management to be commensurate with the risk inherent in our current business model.

The key estimates and assumptions and corresponding uncertainties for goodwill impairment analysis are summarized as follows:

- identification of comparable companies to benchmark under the market approach giving due consideration to the following factors:
  - financial condition and operating performance of the reporting unit being evaluated relative to companies operating in the same or similar businesses,
  - economic, environmental, and political factors faced by such companies, and
  - companies that are considered to be reasonable investment alternatives.
- impact of goodwill impairments recognized in prior years,
- susceptibility of each of our reporting units to fair value fluctuations,
- reporting unit revenue, gross profit, and operating expense growth rates,

- six-year financial forecast,
- discount rate to apply to estimated cash flows,
- terminal values based on the Gordon growth methodology,
- appropriate market comparables,
- estimated multiples of revenue and earnings before interest expense and taxes (“EBIT”) that a willing buyer is likely to pay,
- reasonable gross profit levels,
- estimated control premium a willing buyer is likely to pay, including consideration of the following:
  - the most similar transactions in relevant industries and determined the average premium indicated by the transactions deemed to be most similar to a hypothetical transaction involving our reporting units
  - weighted average and median control premiums offered in relevant industries,
  - industry specific control premiums, and
  - specific transaction control premiums.
- significant events or changes in circumstances including the following:
  - significant negative industry or economic trends,
  - significant decline in our stock price for a sustained period,
  - our market capitalization relative to net book value,
  - significant changes in the manner of our use of the acquired assets,
  - significant changes in the strategy for our overall business, and
  - our assessment of growth and profitability in each reporting unit over the coming years.

Given the uncertainty of the economic environment and the potential impact on our business, there can be no assurance that our estimates and assumptions regarding the duration of the ongoing economic downturn in some regions, or the period or strength of recovery, made for purposes of our goodwill impairment testing at December 31, 2016 will prove to be accurate predictions of the future. If our assumptions regarding forecasted revenue or gross profit rates are not achieved, we may be required to record additional goodwill impairment charges in future periods relating to any of our reporting units, whether in connection with the next annual impairment testing in the fourth quarter of 2017 or prior to that, if any such change constitutes an interim triggering event. It is not possible to determine if any such future impairment charge would result or, if it does, whether such charge would be material.

As part of this process, we engaged a third party valuation firm to assist management in its analysis. All estimates, key assumptions, and forecasts were either provided by or reviewed by us. While we chose to utilize a third party valuation firm, the impairment analysis and related valuations represent the conclusions of management and not the conclusions or statements of any third party

Business combinations. We account for business acquisitions as purchase business combinations in accordance with ASC 805, Business Combinations, which requires that the acquisition method of accounting be used for all business combinations. Please refer to Note 1—The Company and its Significant Accounting Policies of the Notes to Consolidated Financial Statements for our accounting policy with respect to accounting for business combinations.

We allocate the purchase price of acquired companies to the tangible and intangible assets acquired, including in-process research & development (“IPR&D”), and liabilities assumed based on their estimated fair values. Such a valuation requires management to make significant estimates and assumptions, especially with respect to intangible assets. The results of operations for each acquisition are included in our financial statements from the date of acquisition.

The key estimates and assumptions and corresponding uncertainties to account for business acquisitions are summarized as follows:

Key Estimates and Assumptions	Key Uncertainties
Management estimates fair value based on assumptions believed to be reasonable. These estimates are based on historical experience and information obtained from the management of the acquired companies. Critical estimates in valuing certain intangible assets include, but are not limited to: future expected cash flows; acquired developed technologies and patents; expected costs to develop IPR&D into commercially viable products and estimating cash flows from the projects when completed; the acquired company's brand awareness and market position, as well as assumptions about the period of time the acquired brand will continue to be used in our product portfolio; and discount rates.	Our financial projections may ultimately prove to be inaccurate and unanticipated events and circumstances may occur. As a result, these estimates are inherently uncertain and unpredictable, assumptions may be incomplete or inaccurate, and unanticipated events and circumstances may occur, which may affect the accuracy or validity of such assumptions, estimates or other actual results. Therefore, no assurance can be given that the underlying assumptions used to establish the valuation for these acquired businesses will prove to be correct.
We estimate fair value of acquisition-related contingent consideration based on the probability of realization of the performance targets. This estimate is based on significant inputs that are not observable in the market, which ASC 820-10-35 refers to as Level 3 inputs, reflecting our assessment of the assumptions market participants would use to value these liabilities. The fair value of contingent consideration is measured at each reporting period, with any changes in the fair value recognized as a component of general and administrative expense.	We typically engage a third party valuation firm to assist management in its analysis. All estimates, key assumptions, and forecasts were either provided by or reviewed by us. While we chose to utilize a third party valuation firm, the valuations represent the conclusions of management and not the conclusions or statements of any third party.
Other estimates associated with the accounting for acquisitions include severance costs and the costs to vacate or downsize facilities, including the future costs to operate and eventually abandon or relinquish duplicate facilities. These costs are recognized as restructuring and other expenses (i.e., not included in purchase accounting), are based on management estimates, and are subject to refinement.	Estimated costs may change as additional information becomes available regarding assets acquired and liabilities assumed and as management continues its assessment of the pre-merger operations.

Acquisition-related costs of $2.2, $5.5, and $1.5 million were expensed during the years ended December 31, 2016, 2015, and 2014, respectively, associated with businesses acquired during the periods reported and anticipated transactions. The significant decrease in acquisition costs incurred during the year ended December 31, 2016 is primarily due to the Reggiani and Matan acquisitions, which closed on July 1, 2015.

Build-to-Suit leases. If we are deemed to be the accounting owner of a facility in accordance with the requirements of AC 840-40-55, Leases, then we are required to account for the property as a depreciable asset and the related lease agreement must be accounted for as an imputed financing obligation. If we are not deemed to be the accounting owner, then we are required to account for the property as an operating lease. Significant judgments are required to make this determination, which relate to actions, guarantees, and investments that we make as a lessee that may be considered to be actions that only an owner would take. In addition, our potential investments in these facilities must comply with the required maximum guarantee test to ensure that potential investments cannot exceed 90% of the fair value of each facility.

We have four leases subject to these accounting requirements in California, New Hampshire, Spain, and the Netherlands. ASC 840-40-55, Sale-Leaseback Transactions, applies to "construction projects," but does not define this term. The New Hampshire and Spain facilities consist of construction of new facilities. The facilities in Fremont, California, and the Netherlands were existing facilities, but were not functional in their then current forms; thus, these assets represented construction projects subject to the guidance. When leasing an existing facility, we must consider whether the leased asset is fully functional and may be occupied by any lessee in its current form without requiring improvement (commonly referred to as the "second tenant scope exception").

On August 26, 2016, we entered into a six-year lease with BTMU whereby a 225,000 square foot manufacturing and warehouse facility is under construction related to our super-wide format industrial digital inkjet printer business in the Industrial Inkjet operating segment at a projected cost of $40 million and a construction period of 18 months. Minimum lease payments during the initial term are $1.8 million. Upon completion of the initial term, we have the option to renew the lease, purchase the facility, or return the facility to BTMU subject to an 89% residual value guarantee under which we would recognize additional rent expense in the form of a variable rent payment. We have assessed our exposure in relation to the residual value guarantee and believe that there is no deficiency to the guaranteed value with respect to funds expended by BTMU as of December 31, 2016. We are not deemed to be the accounting owner of this facility as we do not have responsibility for actions, guarantees, or investments for which only an owner would accept responsibility.

We are not deemed to be the accounting owner of the leased facilities in the Netherlands or Spain as we only have responsibility for normal tenant improvement costs in each of these facilities. Similarly, we are not responsible for actions, guarantees, or investments for which only an owner would accept responsibility.

We are deemed to be the accounting owner of the 6700 Dumbarton Circle facility in Fremont, California. The critical factor relating to this conclusion is that we are responsible for cost over-runs, if any, related to force majeure events including strikes, war, and material availability. The landlord is responsible for any costs related to force majeure events that result in any damage to the facility. Since we are responsible for cost overruns related to certain force majeure events, we are in substance offering an indemnification to the landlord for events outside of our control. As such, we are deemed to be the accounting owner of the facility. See Note 8—Commitments and Contingencies of the Notes to Consolidated Financial Statements.

We have applied the accounting and disclosure requirements set forth in ASC 810-10, Consolidation, for variable interest entities ("VIEs"). We have evaluated each facility lease agreement to determine if the arrangement qualifies as a VIE under ASC 810-10. We have determined that our facility lease agreements do not qualify as VIEs, and as such, they are not required to be included in our consolidated financial statements.

Determining functional currencies for the purpose of consolidating our international operations. We have a number of foreign subsidiaries, which together account for approximately 54% of our net revenue, approximately 31% of our total assets, and approximately 36% of our total liabilities as of December 31, 2016.

In preparing our consolidated financial statements, for subsidiaries that operate in a U.S. dollar functional currency environment, we must remeasure balance sheet monetary items into U.S. dollars. Foreign currency assets and liabilities are remeasured from the transaction currency into the functional currency at current exchange rates, except for non-monetary assets, liabilities, and capital accounts, which are remeasured at historical exchange rates. Revenue and expenses are recorded at monthly exchange rates, which approximate average exchange rates in effect during each period. Gains or losses from foreign currency remeasurement are included in interest income and other income (expense), net.

For those subsidiaries that operate in a local functional currency environment, all assets and liabilities are translated into U.S. dollars using current exchange rates, while revenue and expenses are translated using monthly exchange rates, which approximate the average exchange rates in effect during each period. Resulting translation adjustments are reported as a separate component of accumulated other comprehensive income ("OCI"), adjusted for deferred income taxes.

Consequently, determination of the functional currency of each entity has a material impact on our financial position and results of operations. Management assesses the salient economic factors, both individually and collectively when determining the functional currency. The economic factors that must be evaluated include cash flow, sales price, sales market, expense, financing, and intercompany transaction indicators.

Recent Accounting Pronouncements

See Note 1—The Company and Its Significant Accounting Policies of the Notes to Consolidated Financial Statements for a full description of recent accounting pronouncements including the respective expected dates of adoption.

Liquidity and Capital Resources

Overview

Cash, cash equivalents, and short-term investments decreased by $37.6 million to $459.7 million as of December 31, 2016 from $497.4 million as of December 31, 2015. The decrease was primarily due to cash consideration paid for the acquisition of Optitex and Rialco, net of cash acquired, of $20.0 million, repayment of debt assumed through business acquisitions of $8.8 million, treasury stock purchases of $74.2 million, settlement of shares for employee common stock related tax liabilities and the stock option exercise price of certain stock options of $9.1 million, cash payments for property and equipment of $22.4 million, funding $6.3 million in the restricted collateral account related to our off-balance sheet lease, acquisition-related contingent consideration payments of $28.1 million, partially offset by cash flows provided by operating activities of $121.0 million, proceeds from ESPP purchases and stock option exercises of $11.1 million, and the impact of foreign exchange rate changes of $0.4 million.

Cash, cash equivalents, and short-term investments decreased by $119.3 million to $497.4 million as of December 31, 2015 from $616.7 million as of December 31, 2014. The decrease was primarily due to cash consideration for the acquisitions of Reggiani, Matan, CTI, and Shuttleworth, net of cash acquired, of $74.8 million, repayment of debt assumed through business acquisitions of $22.5 million, treasury stock purchases of $65.7 million, settlement of shares for employee common stock related tax liabilities and the stock option exercise price of certain stock options of $10.7 million, cash payments for property and equipment of $18.5 million, acquisition-related contingent consideration payments of $4.1 million, partially offset by cash flows provided by operating activities of $65.1 million and proceeds from ESPP purchases and stock option exercises of $11.5 million.

(in thousands)	2016	2015	2014
Cash and cash equivalents	$ 164,313	$ 164,091	$ 298,133
Short-term investments	295,428	333,276	318,599
Total cash, cash equivalents, and short-term investments	$ 459,741	$ 497,367	$ 616,732
Net cash provided by operating activities	$ 121,004	$ 68,357	$ 92,130
Net cash used for investing activities	(12,050)	(110,618)	(180,657)
Net cash provided by (used for) financing activities	(109,106)	(91,682)	211,036
Effect of foreign exchange rate changes on cash and cash equivalents	374	(99)	(1,460)
Increase (decrease) in cash and cash equivalents	$ 222	$(134,042)	$ 121,049

As of December 31, 2016, we have approximately $164.6 million of unremitted earnings, which are not available to meet our operating and working capital requirements in the U.S. as these amounts have been permanently reinvested. Cash, cash equivalents, and short-term investments held outside of the U.S. in various foreign subsidiaries were $94.2 and $106.0 million as of December 31, 2016 and 2015, respectively. Cash, cash equivalents, and short term investments held outside of the U.S will be used to fund local operations and finance international acquisitions. If these funds are needed for our operations in the U.S., we would be required to accrue and pay U.S. federal and state income taxes on some or all of these funds. However, our intent is to indefinitely reinvest these funds outside of the U.S. and our current plans do not demonstrate a need to repatriate them to fund our U.S. operations.

Based on past performance and current expectations, we believe that our cash, cash equivalents, short-term investments, and cash generated from operating activities will satisfy our working capital, capital expenditure, investment, stock repurchase, commitments (see Note 8—Commitments and Contingencies of the Notes to Consolidated Financial Statements), and other liquidity requirements associated with our existing operations through at least the next twelve months. We believe that the most strategic uses of our cash resources include business acquisitions, strategic investments to gain access to new technologies, repurchases of shares of our common stock, and working capital. At December 31, 2016, cash, cash equivalents, and short-term investments available were $459.7 million. We believe that our liquidity position and capital resources are sufficient to meet our operating and working capital needs.

Operating Activities

Net cash provided by operating activities was $121.0, $68.4, and $92.1 million for the years ended December 31, 2016, 2015, and 2014, respectively.

Net cash provided by operating activities in 2016 consists primarily of net income of $45.5 million and non-cash charges and credits of $110.7 million adjusted by the net change in operating asset and liabilities of $35.2 million. Non-cash charges and credits of $110.7 million consist primarily of $55.1 million in depreciation and amortization, $31.7 million of stock-based compensation expense, net of cash settlements, non-cash accretion of interest expense of $13.5 million, provision for bad debts and sales-related allowances of $10.7 million, and provision for inventory obsolescence of $5.2 million, and other non-cash charges and credits of $5.4 million, partially offset by deferred tax credits of $11.0 million. The net change in operating assets and liabilities of $35.2 million consists primarily of increased gross accounts receivable of $31.2 million, increased other current assets of $6.5 million, increased taxes receivable, net, of $2.4 million, partially offset by decreased accounts payable and accrued liabilities of $0.6 million and decreased gross inventories of $4.3 million.

Accounts Receivable

Our primary source of operating cash flow is the collection of accounts receivable from our customers. One measure of the effectiveness of our collection efforts is average days sales outstanding for accounts receivable ("DSO"). DSOs were 76, 69, and 68 days at December 31, 2016, 2015, and 2014, respectively. We calculate DSO by dividing net accounts receivable at the end of the quarter by revenue recognized during the quarter, multiplied by the total days in the quarter.

DSOs increased during the year ended December 31, 2016, compared with December 31, 2015, primarily due to increased Industrial Inkjet and Productivity Software revenue as a percentage of consolidated revenue, sales with extended payment terms, and a non-linear sales cycle resulting in significant billings at the end of the quarter. Industrial Inkjet and Productivity Software were 72% of consolidated revenue during the year ended December 31, 2016. By comparison, Industrial Inkjet and Productivity Software were 66% and 65% of consolidated revenue during the years ended December 31, 2015 and 2014, respectively.

We expect DSOs to vary from period to period because of changes in the mix of business between direct customers and end user demand driven through the leading printer manufacturers, the effectiveness of our collection efforts both domestically and overseas, and variations in the linearity of our sales. As the percentage of Industrial Inkjet and Productivity Software related revenue increases, we expect DSOs will trend higher. Our DSOs related to the Industrial Inkjet and Productivity Software operating segments are traditionally higher than those related to the significant printer manufacturer customers / distributors in our Fiery operating segment as, historically, these Fiery customers have been granted shorter payment terms and have paid on a more timely basis.

We have facilities in the U.S. and Italy that enable us to sell to third parties, on an ongoing basis, certain trade receivables with recourse. Trade receivables sold with recourse are generally short-term receivables with payment due dates of less than 10 days from date of sale, which are subject to a servicing obligation. We also have facilities in Spain and Italy that enable us to sell to third parties, on an ongoing basis, certain trade receivables without recourse. Trade receivables sold without recourse are generally short-term receivables with payment due dates of less than one year, which are secured by international letters of credit.

Trade receivables sold cumulatively under these facilities were $19.8 and $3.5 million throughout 2016 on a recourse and nonrecourse basis, respectively, which approximates the cash received. The receivables that were sold to third parties were removed from the Consolidated Balance Sheets and were reflected as cash provided by operating activities in the Consolidated Statements of Cash Flows.

Inventories

Our inventories are procured primarily in support of the Industrial Inkjet and Fiery operating segments. The majority of our Industrial Inkjet products are manufactured internally, while Fiery production is primarily outsourced. The result is lower inventory turnover for Industrial Inkjet inventories compared with Fiery inventories.

Our net inventories decreased by $7.3 million to $99.1 million at December 31, 2016 from $106.4 million at December 31, 2015 due to reduced inventories in the Industrial Inkjet operating segment due to improved inventory requirements forecasting and supplier management. Inventory turnover was 5.0 during the quarter ended December 31, 2016 compared with 4.7 turns during the quarter ended December 31, 2015. We calculate inventory turnover by dividing annualized current quarter cost of revenue by ending inventories.

Accounts Payable, Accrued and Other Liabilities, and Net Income Taxes Payable

Our operating cash flows are impacted by the timing of payments to our vendors for accounts payable and by our accrual of liabilities. The change in accounts payable, accrued and other liabilities, and net income taxes payable decreased our cash flows provided by operating activities by $1.8 and $10.6 million in 2016 and 2015, respectively. The change in accounts payable, accrued and other liabilities, and net income taxes payable increased our cash flows provided by operating activities by $3.1 million in 2014. Our working capital, defined as current assets minus current liabilities, was $552.4 and $586.7 million at December 31, 2016 and 2015, respectively.

Investing Activities

Net cash used for investing activities was $12.1, $110.6, and $180.7 million for the years ended December 31, 2016, 2015, and 2014, respectively.

	2016	2015	2014
Purchases of short-term investments	$(216,349)	$(328,911)	$(281,962)
Proceeds from sales and maturities of short-term investments	252,856	311,508	139,185
Purchases of restricted investments and cash equivalents	(6,252)	—	—
Purchases, net of proceeds from sales, of property and equipment	(22,373)	(18,449)	(15,900)
Businesses and technology purchased, net of cash acquired	(19,932)	(74,766)	(21,980)
Net cash used for investing activities	$ (12,050)	$(110,618)	$(180,657)

Acquisitions

On June 16, 2016, we purchased Optitex for cash consideration of $11.6 million, net of cash acquired, plus an additional potential future cash earnout, which is contingent on achieving revenue and operating profit performance targets. Optitex has developed and markets integrated 2D and 3D CAD software that is shortening the design cycle, reducing our customers' costs, and accelerating the adoption of fast fashion.

On March 1, 2016, we purchased Rialco for cash consideration of $8.4 million, net of cash acquired, plus an additional potential future cash earnout, which is contingent on achieving revenue and gross profit targets. Rialco is a leading European supplier of dye powders and color products for the textile, digital print, and other decorating industries.

The escrow of $1.5 million related to the Reggiani acquisition was remitted to us in return for the issuance of shares of common stock for the year ended December 31, 2016. We also purchased additional intellectual property related to the Reggiani business for $0.3 million. A tax recovery liability of $1.0 million related to the Creta Print S.L. "(Cretaprint") acquisition was paid during the year ended December 31, 2016.

On July 1, 2015, we acquired Matan for approximately $38.9 million in cash, net of cash acquired, and Reggiani for approximately $26.6 million in cash, net of cash acquired, $26.9 million in shares of EFI stock, plus an additional future potential cash earnout contingent on achieving certain performance targets.

We acquired privately-held CTI and Shuttleworth during the fourth quarter of 2015, which have been included in our Productivity Software operating segment, for aggregate cash consideration of $9.3 million, net of cash acquired, $9.7 million in shares of EFI stock, plus a potential future cash earnout, which is contingent on achieving certain performance targets.

SmartLinc, Rhapso, DirectSmile, and DIMS were acquired in 2014 for aggregate cash consideration of $20.4 million, net of cash acquired, plus additional future cash earnouts contingent on achieving certain performance targets; technology was acquired from Polymeric for $1.1 million; $0.3 million was paid related to the GamSys Software SPRL ("GamSys") acquisition, which was dependent on accounts receivable collections; and purchase price adjustments of $0.2 million were paid with respect to the acquisitions of Metrix Software ("Metrix"), Lector Computersysteme GmbH ("Lector"), and Rhapso.

Property and Equipment

Net purchases of property and equipment were $22.3, $18.5, and $15.9 million in 2016, 2015, and 2014, respectively, including the purchase of ceramic digital ink formulation equipment and research and development equipment.

Our property and equipment additions have historically been funded from operating activities. We anticipate that we will continue to purchase necessary property and equipment in the normal course of our business. The amount and timing of these purchases and the related cash outflows in future periods is difficult to predict and is dependent on a number of factors including the hiring of employees, the rate of change in computer hardware / software used in our business, and our business outlook.

Investments

Proceeds from sales and maturities, net of purchases, of marketable securities were $36.5 million in 2016. Purchases of marketable securities, net of proceeds from sales and maturities, were $17.4 and $142.8 million in 2015 and 2014, respectively. We have classified our investment portfolio as “available for sale.” Our investments are made with a policy of capital preservation and liquidity as primary objectives. We may hold investments in fixed income debt securities to maturity; however, we may sell an investment at any time if the quality rating of the investment declines, the yield on the investment is no longer attractive, or we have better uses for the cash. Since we invest primarily in investment securities that are highly liquid with a ready market, we believe the purchase, maturity, or sale of our investments has no material impact on our overall liquidity.

Financing Activities

Net cash used for financing activities was $109.1 and $91.7 million for the years ended December 31, 2016 and 2015, respectively. Net cash provided by financing activities as $211.0 million during the year ended December 31, 2014.

In September 2014, we completed a private placement of $345 million principal amount of Notes. The net proceeds from this offering were $336.3 million, after deducting commissions and offering expenses paid by us. We used approximately $29.4 million of the net proceeds to pay the cost of the Note Hedges (after such cost was partially offset by the proceeds from the Warrant transactions).

Stock Option and ESPP Proceeds

Historically, our recurring cash flows provided by financing activities have been from the receipt of cash from the issuance of common stock through the exercise of stock options and employee purchases of ESPP shares. We received proceeds from the exercise of stock options of $1.3, $2.0, and $7.7 million and employee purchases of ESPP shares of $9.8, $9.5, and $8.6 million in 2016, 2015, and 2014, respectively. While we may continue to receive proceeds from these plans in future periods, the timing and amount of such proceeds are difficult to predict and are contingent on a number of factors including the price of our common stock, the timing and number of stock options exercised by employees that had participated in these plans, net settlement options, and general market conditions. We anticipate that cash provided from the exercise of stock options will decline over time as we have shifted to issuance of RSUs, rather than stock options. Although we may grant stock option awards from time to time, the granting of stock options is no longer our usual practice.

Treasury Stock Purchases

The primary use of funds for financing activities in 2016, 2015, and 2014 was $83.3, $76.4, and $101.1 million, respectively, of cash used to repurchase outstanding shares of our common stock. Such purchases included $9.1, $10.7, and $24.3 million of cash used for net settlement of shares for the exercise price of certain stock options and any tax withholding obligations incurred in connection with such exercises and minimum tax withholding obligations that arose on the vesting of RSUs.

On November 6, 2013, the board of directors approved an authorization to repurchase of $200 million of outstanding common stock. Under this publicly announced plan, we repurchased 1.5 and 1.8 million shares for an aggregate purchase price of $65.7 and $76.8 million during the years ended December 31, 2015 and 2014, respectively. On November 9, 2015, the board of directors cancelled $55 million, effective December 31, 2015, remaining for repurchase under the 2013 authorization and approved a new authorization to repurchase $150 million of outstanding common stock commencing January 1, 2016. This authorization expires December 31, 2018. Under this publicly announced plan, we repurchased 1.8 million shares for an aggregate purchase price of $74.2 million during the year ended December 31, 2016.

See Item 5—Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities for further discussion of our common stock repurchase programs.

Earnout Payments

Earnout payments during the year ended December 31, 2016 of $23.8, $3.6, $0.4, and $0.2 million are primarily related to the previously accrued Reggiani, DirectSmile, SmartLinc, and Metrix contingent consideration liabilities, respectively. Earnout payments during the year ended December 31, 2015 of $2.0, $1.1, $0.6, and $0.3 million are primarily related to the previously accrued Technique, Inc. and Technique Business Systems Limited (collectively, "Technique"), GamSys, Metrix, and SmartLinc contingent consideration liabilities, respectively. Earnout payments during the year ended December 31, 2014 of $6.2, $4.5, $2.0, and $1.2 million are related to the previously accrued Cretaprint, Metrics Sistemas de Informação, Serviços e Comércio Ltda. and Metrics Sistemas de Informação e Serviço Ltda. (collectively, "Metrics"), Technique, and GamSys contingent consideration liabilities, respectively. The portion of the Metrics and Radius earnouts representing performance targets achieved in excess of amounts assumed in the opening balance sheet as of the respective acquisition date was $3.4 million during the year ended December 31, 2014, and is reflected as cash used for operating activities in the Consolidated Statements of Cash Flows.

We paid approximately $8.8 million of indebtedness, which was assumed in the Optitex and Matan acquisitions during the year ended December 31, 2016. We paid approximately $22.5 million of indebtedness, which was assumed in the Reggiani acquisition during the year ended December 31, 2015.

Other Commitments

Our Industrial Inkjet inventories consist of materials required for our internal manufacturing operations and finished goods and sub-assemblies purchased from third party contract manufacturers. Raw materials and finished goods, print heads, frames, digital UV curable ink, ceramic digital ink, various textile printing inks, and other components are required to support our internal manufacturing operations. Label and packaging digital inkjet printers, branded textile ink, and certain sub-assemblies are purchased from third party contract manufacturers and branded third party ink manufacturers.

Our Fiery inventory consists primarily of raw materials and finished goods, memory subsystems, processors, and ASICs, which are sold to third party contract manufacturers responsible for manufacturing our products. Should we decide to purchase components and manufacture Fiery DFEs internally, or should it become necessary for us to purchase and sell components other than memory subsystems, processors, and ASICs to our contract manufacturers, inventory balances and potentially property and equipment would increase significantly, thereby reducing our available cash resources. Further, the inventories we carry could become obsolete, thereby negatively impacting our financial condition and results of operations.

We are also reliant on several sole source suppliers for certain key components and could experience a further significant negative impact on our financial condition and results of operations if such supplies were reduced or not available. We may be required to compensate our subcontract manufacturers for components purchased for orders subsequently cancelled by us. We periodically review the potential liability and the adequacy of the related allowance.

We may be required to compensate our subcontract manufacturers for components purchased for orders subsequently cancelled by us. We periodically review the potential liability and the adequacy of the related allowance.

Legal Proceedings

Please refer to Item 3, Legal Proceedings, in this Annual Report on Form 10-K for more information regarding our legal proceedings.

Contractual Obligations and Off-Balance Sheet Financing

The impact of contractual obligations on our liquidity and capital resources in future periods should be analyzed in conjunction with the factors that impact our cash flows from operating activities discussed previously. The following table summarizes our significant contractual obligations at December 31, 2016 and the effect that such obligations are expected to have on our liquidity and cash flows in future periods. This table excludes amounts already recorded on our balance sheet as liabilities at December 31, 2016, with the exception of acquisition-related contingent consideration liabilities, unrecognized tax benefits, and our Notes.

	Payments due by period				
(in thousands)	**Total**	**Less than 1 year**	**Between 1-3 years**	**Between 3-5 years**	**More than 5 years**
Operating lease obligations	$ 71,004	$ 9,097	$ 16,088	$11,925	$33,894
Contingent consideration liabilities (1)	56,463	19,244	37,219	—	—
Purchase obligations (2)	37,452	37,452	—	—	—
Convertible senior notes (3)	352,763	2,588	350,175	—	—
Unrecognized tax benefits (4)	35,900	—	—	—	—
Total (2)	$553,582	$68,381	$403,482	$11,925	$33,894

(1) Represents the fair value of acquisition-related contingent consideration liabilities. The current fair value is reflected in our Consolidated Balance Sheets under the caption "accrued and other liabilities" and represents the fair value of the contingent consideration liabilities that are payable within one year. The noncurrent fair value is reflected in our Consolidated Balance Sheets under the caption "noncurrent contingent and other liabilities" and represents the fair value of the contingent consideration liabilities that are payable beyond one year.

(2) Excludes contractual obligations recorded on the balance sheet as current liabilities and certain purchase orders as discussed below.

(3) Obligations related to our $345 million principal amount of our Notes, which is due in 2019. Estimated remaining interest payments for our Notes, assuming no early retirement of debt obligations, are $7.8 million through 2019.

(4) As of December 31, 2016, our liability for unrecognized tax benefits, including interest and penalties, is reflected in our Consolidated Balance Sheet as $12.0 million of "noncurrent income taxes payable" and $23.9 million as a reduction of "deferred tax assets." Due to the uncertainty of the timing of future payments, unrecognized tax benefits are presented in the total column on a separate line in this table. See Note 11—Income Taxes of the Notes to the Consolidated Financial Statements for additional discussion of unrecognized tax benefits.

Purchase obligations in the table above include agreements to purchase goods or services that are enforceable, noncancellable, and legally binding that specify all significant terms including fixed or minimum quantities to be purchased; fixed, minimum, or variable price provisions; and the approximate timing of the transaction. Purchase obligations exclude purchase orders for raw materials and other goods and services that are cancelable without penalty. Our purchase orders are based on current manufacturing needs and are generally fulfilled by our vendors within short time horizons. We also enter into contracts for outsourced services; however, the obligations under these contracts were not significant and the contracts generally contain clauses allowing for cancellation without significant penalty.

The expected timing of payment for the obligations listed above is estimated based on current information. Timing of payments and actual amounts paid may be different depending on when the goods or services are received or changes to agreed-upon amounts for some obligations.

Off-Balance Sheet Financing

On August 26, 2016, we entered into a lease agreement and have accounted for a lease term of 48.5 years, inclusive of two renewal options of 5.0 and 3.5 years, with the City of Manchester to lease 16.9 acres of land adjacent to the Manchester Regional Airport. The land is subleased to BTMU during the term of the lease related to the manufacturing facility that is being constructed on the site which is described below. Minimum lease payments are $13.1 million during the 48.5 year term of the land lease, excluding four months of the land lease that is financed into the manufacturing facility lease.

On August 26, 2016, we entered into a six-year lease with BTMU whereby a 225,000 square foot manufacturing and warehouse facility is under construction related to our super-wide format industrial digital inkjet printer business in the Industrial Inkjet operating segment at a projected cost of $40 million and a construction period of 18 months. Minimum lease payments during the initial term are $1.8 million. Upon completion of the initial term, we have the option to renew the lease, purchase the facility, or return the facility to BTMU subject to an 89% residual value guarantee under which we would recognize additional rent expense in the form of a variable rent payment. We have assessed our exposure in relation to the residual value guarantee and believe that there is no deficiency to the guaranteed value with respect to funds expended by BTMU as of December 31, 2016. We are treated as the owner of the facility for federal income tax purposes.

The funds pledged under the lease represent 115% of the total expenditures made by BTMU through December 31, 2016. The funds are invested in $5.1 and $1.2 of million U.S. government securities and cash equivalents, respectively, with a third party trustee and will be restricted during the construction period. Upon completion of construction, the funds will be released as cash and cash equivalents. The portion that represents 100% of the total expenditures made by BTMU will be deposited with BTMU and restricted as collateral until the end of the underlying lease period.

Item 7A: Quantitative and Qualitative Disclosures about Market Risk

The following discussion of our risk management activities includes “forward-looking statements” that involve risks and uncertainties. Actual results could differ materially from those projected in the forward-looking statements.

Market Risk

We are exposed to various market risks. Market risk is the potential loss arising from adverse changes in market rates and prices, general credit, foreign currency exchange rate fluctuations, liquidity, and interest rate risks, which may be exacerbated by the tight global credit market and increase in economic uncertainty that have affected various sectors of the financial market and continue to cause credit and liquidity issues. We do not enter into derivatives or other financial instruments for trading or speculative purposes. We may enter into financial instrument contracts to manage and reduce the impact of changes in foreign currency exchange rates on earnings and cash flows. The counterparties to such contracts are major financial institutions. We hedge our operating expense exposure in Indian rupees. The notional amount of our Indian rupee cash flow hedge was $3.2 million at December 31, 2016. We hedge balance sheet remeasurement exposures using forward contracts not designated as hedging instruments with notional amounts of $158.7 million at December 31, 2016 consisting of hedges of Brazilian real, British pound sterling, Israeli shekel, Australian dollar, Japanese yen, Chinese renminbi, and Euro-denominated intercompany balances with notional amounts of $90.7 million at December 31, 2016, hedges of Brazilian real, British pound sterling, Australian dollar, Israeli shekel, and Euro-denominated trade receivables with notional amounts of $39.8 million at December 31, 2016, and hedges of British pounds sterling, Indian rupee, and Euro-denominated other net monetary assets with notional amounts of $28.2 million at December 31, 2016.

Since Europe represents a significant portion of our revenue and cash flow, SEC encourages disclosure of our European concentrations of credit risk regarding gross receivables, related reserves, and aging on a region or country basis, and the impact on liquidity with respect to estimated timing of receivable payments. Since Europe is composed of varied countries and regional economies, our European risk profile is somewhat more diversified due to the varying economic conditions among the countries. Approximately 28% of our receivables are with European customers as of December 31, 2016. Of this amount, 26% of our European receivables (7% of consolidated net receivables) are in the higher risk southern European countries (mostly Spain, Portugal, and Italy).

Marketable Securities

We maintain an investment portfolio of short-term fixed income debt securities of various holdings, types, and maturities. These short-term investments are generally classified as available-for-sale and, consequently, are recorded on our Consolidated Balance Sheets at fair value with unrealized gains and losses reported as a separate component of OCI. We attempt to limit our exposure to interest rate risk by investing in securities with maturities of less than three years; however, we may be unable to successfully limit our risk to interest rate fluctuations. At any time, a sharp rise in interest rates could have a material adverse impact on the fair value of our investment portfolio. Conversely, declines in interest rates could have a material favorable impact on the fair value of our investment portfolio. Increases or decreases in interest rates could have a material impact on interest earnings related to new investments during the period. We do not currently hedge these interest rate exposures.

Interest Rate Risk

Hypothetical changes in the fair values of financial instruments held by us at December 31, 2016 that are sensitive to changes in interest rates are presented below. The modeling technique measures the change in fair value arising from selected potential changes in interest rates. Market changes reflect immediate hypothetical parallel shifts in the yield curve of plus or minus 100 basis points over a twelve month time horizon (in thousands):

Valuation of securities assuming an interest rate decrease of 100 basis points	No change in interest rates	Valuation of securities assuming an interest rate increase of 100 basis points
$ 322,725	$ 319,003	$ 315,263

We have no European sovereign debt investments. Our European debt investments consist of non-sovereign corporate debt securities of $28.0 million, which represents 14% of our corporate debt instruments (9% of our short-term investments) at December 31, 2016. European debt investments are with corporations domiciled in the northern and central European countries of Sweden, Netherlands, Norway, France, Switzerland, and the U.K. We do not have any short-term investments with corporations domiciled in the higher risk “southern European” countries (i.e., Italy, Spain, Greece, and Portugal) or Ireland. We believe that we do not have significant exposure with respect to our money market and corporate debt investments in Europe, although we do have some exposure due to the interdependencies among the European Union countries.

As of December 31, 2016, we have $345 million principal amount of Notes outstanding. We carry these instruments at face value less unamortized discount on our Consolidated Balance Sheets. Since these instruments bear interest at fixed rates, we have no financial statement risk associated with changes in interest rates. Although the fair value of these instruments fluctuates when interest rates change, a substantial portion of the market value of our Notes in excess of the outstanding principal amount relates to the conversion premium. Please refer to Note 6—Investments and Fair Value Measurements and Note 7—Convertible Senior Notes, Note Hedges, and Warrants of the Notes to Consolidated Financial Statements.

Foreign Currency Exchange Risk

A large portion of our business is conducted in countries other than the U.S. We are primarily exposed to changes in exchange rates for the Euro, British pound sterling, Indian rupee, Japanese yen, Brazilian real, Chinese renminbi, Israeli shekel, New Zealand dollar, and Australian dollar. Although the majority of our receivables are invoiced and collected in U.S. dollars, we have exposure from non-U.S. dollar-denominated sales (consisting of the Euro, British pound sterling, Brazilian real, Chinese renminbi, Israeli shekel, Australian dollar, and Canadian dollar) and operating expenses (primarily the Euro, British pound sterling, Chinese renminbi, Israeli shekel, Japanese yen, Indian rupee, Brazilian real, and Australian dollar) in foreign countries. We can benefit from or be adversely affected by either a weaker or stronger U.S. dollar relative to major currencies worldwide with respect to our consolidated financial statements. Accordingly, we can benefit from a stronger U.S. dollar due to the corresponding reduction in our foreign operating expenses translated in U.S. dollars and at the same time we can be adversely affected by a stronger U.S. dollar due to the corresponding reduction in foreign revenue translated in U.S. dollars.

We hedge our operating expense exposure in Indian rupees. The notional amount of our Indian rupee cash flow hedge was $3.2 million at December 31, 2016. We hedge balance sheet remeasurement exposures using forward contracts not designated as hedging instruments with notional amounts of $158.7 million at December 31, 2016 consisting of hedges of Brazilian real, British pound sterling, Israeli shekel, Australian dollar, Japanese yen, Chinese renminbi, and Euro-denominated intercompany balances with notional amounts of $90.7 million at December 31, 2016, hedges of Brazilian real, British pound sterling, Australian dollar, Israeli shekel, and Euro-denominated trade receivables with notional amounts of $39.8 million at December 31, 2016, and hedges of British pounds sterling, Indian rupee, and Euro-denominated other net monetary assets with notional amounts of $28.2 million at December 31, 2016.

The impact of hypothetical changes in foreign exchanges rates on revenue and income from operations are presented below. The modeling technique measures the change in revenue and income from operations resulting from changes in selected foreign exchange rates with respect to the Euro and British pound sterling of plus or minus one percent during the year ended December 31, 2016 as follows (in thousands):

	Impact of a foreign exchange rate decrease of one percent	No change in foreign exchange rates	Impact of a foreign exchange rate increase of one percent
Revenue	$994,604	$992,065	$989,526
Income from operations	$ 56,870	$ 56,553	$ 56,236

Item 8: Financial Statements and Supplementary Data

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Form 10-K

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Electronics For Imaging, Inc.
Fremont, California

We have audited the accompanying consolidated balance sheets of Electronics For Imaging, Inc. and subsidiaries (the "Company") as of December 31, 2016 and 2015 and the related consolidated statements of operations, comprehensive income, cash flows, and stockholders' equity for each of the three years in the period ended December 31, 2016. Our audits also included the financial statement schedule listed in the Index at Item 15. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Electronics For Imaging, Inc. and subsidiaries as of December 31, 2016 and 2015 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2016, based on the criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 21, 2017, expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP
San Jose, California
February 21, 2017

Electronics For Imaging, Inc.
Consolidated Balance Sheets

(in thousands)	December 31, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 164,313	$ 164,091
Short-term investments, available for sale	295,428	333,276
Accounts receivable, net of allowances of $23.3 and $22.0 million, respectively	220,813	193,121
Inventories	99,075	106,378
Income taxes receivable	975	473
Assets held for sale	3,781	—
Other current assets	31,881	29,675
Total current assets	816,266	827,014
Property and equipment, net	103,304	97,779
Restricted investments and cash equivalents	6,252	—
Goodwill	359,841	338,793
Intangible assets, net	122,997	135,552
Deferred tax assets	58,477	41,043
Other assets	14,359	9,970
Total assets	$1,481,496	$1,450,151
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 114,287	$ 113,541
Accrued and other liabilities	85,505	74,425
Deferred revenue	53,813	48,767
Income taxes payable	10,256	3,594
Total current liabilities	263,861	240,327
Convertible senior notes, net	304,484	290,734
Imputed financing obligation related to build-to-suit lease	14,152	13,480
Noncurrent contingent and other liabilities	42,786	51,101
Deferred tax liabilities	16,351	19,003
Noncurrent income taxes payable	12,030	11,312
Total liabilities	653,664	625,957
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Preferred stock, $0.01 par value; 5,000 shares authorized; none issued and outstanding	—	—
Common stock, $0.01 par value; 150,000 shares authorized; 53,038 and 51,808 shares issued, respectively	530	518
Additional paid-in capital	705,901	657,354
Treasury stock, at cost; 6,457 and 4,476 shares, respectively	(273,730)	(190,439)
Accumulated other comprehensive loss	(24,694)	(17,424)
Retained earnings	419,825	374,185
Total stockholders' equity	827,832	824,194
Total liabilities and stockholders' equity	$1,481,496	$1,450,151

See accompanying notes to consolidated financial statements.

Electronics For Imaging, Inc.
Consolidated Statements of Operations

(in thousands, except per share amounts)	For the years ended December 31, 2016	2015	2014
Revenue	$992,065	$882,513	$790,427
Cost of revenue [1]	483,375	423,129	360,690
Gross profit	508,690	459,384	429,737
Operating expenses:			
Research and development [1]	151,192	141,364	134,732
Sales and marketing [1]	169,042	156,339	147,383
General and administrative [1]	85,614	72,797	66,932
Amortization of identified intangibles	39,560	26,510	20,673
Restructuring and other (Note 13)	6,729	5,731	6,578
Total operating expenses	452,137	402,741	376,298
Income from operations	56,553	56,643	53,439
Interest expense	(17,716)	(17,364)	(5,859)
Interest income and other income (expense), net	545	(1,757)	(5,493)
Income before income taxes	39,382	37,522	42,087
Benefit from (provision for) income taxes	6,164	(3,982)	(8,373)
Net income	$ 45,546	$ 33,540	$ 33,714
Net income per basic common share	$ 0.97	$ 0.71	$ 0.72
Net income per diluted common share	$ 0.95	$ 0.70	$ 0.70
Shares used in basic per-share calculation	46,900	47,217	46,866
Shares used in diluted per-share calculation	47,797	48,150	48,406

[1] Includes stock-based compensation expense as follows:

	2016	2015	2014
Cost of revenue	$ 2,784	$ 2,837	$ 2,562
Research and development	8,968	9,406	8,818
Sales and marketing	7,690	7,602	7,070
General and administrative	12,384	14,226	17,611

See accompanying notes to consolidated financial statements.

Electronics For Imaging, Inc.
Consolidated Statements of Comprehensive Income

(in thousands)	For the years ended December 31,		
	2016	2015	2014
Net income	$45,546	$33,540	$33,714
Net unrealized investment losses:			
Unrealized holding losses, net of tax benefits of less than $0.1, $0.1, and $0.2 million for the years ended December 31, 2016, 2015, and 2014, respectively	(97)	(169)	(344)
Reclassification adjustments included in net income, net of no tax benefit for the year ended December 31, 2016 and less than $0.1 million for the years ended December 31, 2015 and 2014	—	(66)	(24)
Net unrealized investment losses	(97)	(235)	(368)
Currency translation adjustments, net of tax benefit of $0.5 million for the year ended December 31, 2016, no tax provision for the year ended December 31, 2015, and tax provision of less than $0.1 million for the year ended December 31, 2014	(7,181)	(9,872)	(5,576)
Unrealized gains (losses) on cash flow hedges	8	40	(25)
Comprehensive income	$38,276	$23,473	$27,745

Form 10-K

See accompanying notes to consolidated financial statements.

Electronics For Imaging, Inc.
Consolidated Statements of Stockholders' Equity

(in thousands)	Common stock Shares	Common stock Amount	Additional paid-in capital	Treasury stock Shares	Treasury stock Amount	Accumulated Other comprehensive income (loss)	Retained earnings	Total stockholders' equity
Balances as of December 31, 2013	**47,370**	**$474**	**$474,330**	**(396)**	**$ (12,897)**	**$ (1,388)**	**$306,931**	**$ 767,450**
Comprehensive income (loss), net of tax						(5,969)	33,714	27,745
Exercise of common stock options	490	5	7,690					7,695
Restricted stock vested	1,174	12	(12)					—
Equity component of convertible senior notes, net			63,114					63,114
Purchase of note hedges			(63,928)					(63,928)
Issuance of warrants			34,535					34,535
Stock-based compensation			36,061					36,061
Stock repurchases				(2,340)	(101,095)			(101,095)
Stock issued pursuant to ESPP	637	6	8,615					8,621
Tax benefit from employee stock plans			8,491					8,491
Balances as of December 31, 2014	**49,671**	**$497**	**$568,896**	**(2,736)**	**$(113,992)**	**$ (7,357)**	**$340,645**	**$ 788,689**
Comprehensive income (loss), net of tax						(10,067)	33,540	23,473
Exercise of common stock options	124	1	1,901					1,902
Restricted stock vested	925	9	(9)					—
Common stock issued in connection with business acquisitions	787	8	36,559					36,567
Stock-based compensation, net of cash settlements			33,741					33,741
Non-cash settlement of vacation liabilities by issuing RSUs			1,353					1,353
Stock repurchases				(1,740)	(76,447)			(76,447)
Stock issued pursuant to ESPP	301	3	9,544					9,547
Tax benefit from employee stock plans			5,369					5,369
Balances as of December 31, 2015	**51,808**	**$518**	**$657,354**	**(4,476)**	**$(190,439)**	**$(17,424)**	**$374,185**	**$ 824,194**
Comprehensive income (loss), net of tax						(7,270)	45,546	38,276
Exercise of common stock options	115	1	1,344					1,345
Restricted stock vested	787	8	(8)					—
Common stock issued in connection with business acquisition	30	—	73					73
Cumulative effect adjustment upon adoption of ASU 2016-09			2,743				94	2,837
Stock-based compensation, net of cash settlements			31,726					31,726
Non-cash settlement of vacation liabilities by issuing RSUs			3,059					3,059
Stock repurchases				(1,981)	(83,291)			(83,291)
Stock issued pursuant to ESPP	298	3	9,756					9,759
Balances as of December 31, 2016	**53,038**	**$530**	**$705,901**	**(6,457)**	**$(273,730)**	**$(24,694)**	**$419,825**	**$ 827,832**

See accompanying notes to consolidated financial statements.

Electronics For Imaging, Inc.
Consolidated Statements of Cash Flows

(in thousands)	For the years ended December 31, 2016	2015	2014
Cash flows from operating activities:			
Net income	$ 45,546	$ 33,540	$ 33,714
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	55,081	40,124	31,099
Deferred taxes	(10,955)	(7,384)	(5,836)
Tax benefit from employee stock plans	—	5,369	8,491
Provision for bad debts and sales-related allowances	10,678	7,536	7,408
Provision for inventory obsolescence	5,187	5,193	6,300
Stock-based compensation, net of cash settlements	31,726	33,741	36,061
Contingent consideration payments related to businesses acquired	—	—	(3,428)
Non-cash accretion of interest expense on convertible notes and imputed financing obligation	13,489	12,957	4,433
Other non-cash charges and credits	5,443	3,842	(3,608)
Changes in operating assets and liabilities, net of effect of acquired companies:			
Accounts receivable	(31,221)	(34,355)	(27,143)
Inventories	4,306	(6,759)	(11,868)
Other current assets	(6,499)	(14,863)	13,409
Accounts payable and accrued liabilities	652	(6,371)	8,729
Income taxes receivable and payable, net	(2,429)	(4,213)	(5,631)
Net cash provided by operating activities	121,004	68,357	92,130
Cash flows from investing activities:			
Purchases of short-term investments	(216,349)	(328,911)	(281,962)
Proceeds from sales and maturities of short-term investments	252,856	311,508	139,185
Purchases of restricted investments and cash equivalents	(6,252)	—	—
Purchases, net of proceeds from sales, of property and equipment	(22,373)	(18,449)	(15,900)
Businesses and technology purchased, net of cash acquired	(19,932)	(74,766)	(21,980)
Net cash used for investing activities	(12,050)	(110,618)	(180,657)
Cash flows from financing activities:			
Proceeds from issuance of convertible notes, net of debt issuance costs paid	(3)	(58)	336,365
Purchase of convertible note hedges	—	—	(63,928)
Proceeds from issuance of warrants	—	—	34,535
Proceeds from issuance of common stock	11,100	11,450	16,317
Purchases of treasury stock and net share settlements	(83,292)	(76,447)	(101,095)
Repayment of debt assumed through business acquisitions	(8,800)	(22,534)	(564)
Contingent consideration payments related to businesses acquired	(28,111)	(4,093)	(10,594)
Net cash provided by (used for) financing activities	(109,106)	(91,682)	211,036
Effect of foreign exchange rate changes on cash and cash equivalents	374	(99)	(1,460)
Increase (decrease) in cash and cash equivalents	222	(134,042)	121,049
Cash and cash equivalents at beginning of year	164,091	298,133	177,084
Cash and cash equivalents at end of year	$ 164,313	$ 164,091	$ 298,133

See accompanying notes to consolidated financial statements.

Electronics For Imaging, Inc.
Notes to Consolidated Financial Statements

Note 1: The Company and Its Significant Accounting Policies

The Company

We are a world leader in customer-centric digital printing innovation focused on the transformation of the printing, packaging, ceramic tile decoration, and textile industries from the use of traditional analog based printing to digital on-demand printing.

Our products include industrial super-wide and wide format display graphics, textile, label and packaging, and ceramic tile decoration industrial digital inkjet printers that utilize our digital ink, industrial digital inkjet printer parts, and professional services; print production workflow, web-to-print, cross-media marketing, and business process automation solutions; and color printing DFEs creating an on-demand digital printing ecosystem. Our ink includes digital UV curable, LED curable, ceramic, water-based, and thermoforming ink, as well as a variety of textile ink including dye sublimation, pigmented, reactive dye, acid dye, pure disperse dye, and water-based dispersed printing ink. Our award-winning business process automation solutions are integrated from creation to print and are vertically integrated with our industrial digital inkjet printers and products produced by the leading production digital color page printer manufacturers that are driven by our Fiery DFEs.

Our product portfolio includes industrial super-wide and wide format digital inkjet products ("Industrial Inkjet") including VUTEk and Matan display graphics super-wide and wide format, Reggiani textile, Jetrion label and packaging, and Cretaprint ceramic tile decoration and construction material industrial digital inkjet printers and ink; print production workflow, web-to-print, cross-media marketing, Optitex textile 2D and 3D CAD applications, and business process automation software ("Productivity Software"), which provides corporate printing, label and packaging, publishing, and mailing and fulfillment solutions for the printing and packaging industry; and Fiery DFEs ("Fiery"). Our integrated solutions and award-winning technologies are designed to automate print and business processes, streamline workflow, provide profitable value-added services, and produce accurate digital output.

Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements include the accounts of EFI and our subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements requires estimates and judgments that affect the reported amounts of assets, liabilities, revenue, expenses, comprehensive income, cash flows, and related disclosure of contingent assets and liabilities. We evaluate our estimates, including those related to revenue recognition, bad debts, inventory valuation and purchase commitment reserves, warranty obligations, litigation expenses, restructuring activities, fair value of financial instruments, stock-based compensation, income taxes, valuation of goodwill and intangible assets, business combinations, build-to-suit lease accounting, functional currency determination, and contingencies on an ongoing basis. Estimates are based on historical and current experience, the impact of the current economic environment, and various other assumptions believed to be reasonable under the circumstances at the time of the estimate, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Cash, Cash Equivalents, and Short-term Investments

We invest our excess cash on deposit with major banks in money market, U.S. Treasury and government-sponsored entity, corporate, municipal government, asset-backed, and mortgage-backed residential securities. By policy, we invest primarily in high-grade marketable securities. We are exposed to credit risk in the event of default by the financial institutions or issuers of these investments to the extent of amounts recorded in our Consolidated Balance Sheets.

We consider all highly liquid investments with an original maturity of three months or less at the time of purchase to be cash equivalents. Typically, the cost of these investments has approximated fair value. Marketable investments with a maturity greater than three months are classified as available-for-sale short-term investments. Available-for-sale securities are stated at fair value with unrealized gains and losses reported as a separate component of OCI, adjusted for deferred income taxes. The credit portion of any other-than-temporary impairment is included in net income. Realized gains and losses on sales of financial instruments are recognized upon sale of the investments using the specific identification method.

We review investments in debt securities for other-than-temporary impairment whenever the fair value is less than the amortized cost and evidence indicates the investment's carrying amount is not recoverable within a reasonable period of time. We assess the fair value of individual securities as part of our ongoing portfolio management. Our other-than-temporary assessment includes reviewing the length of time and extent to which fair value has been less than amortized cost; the seniority and durations of the securities; adverse conditions related to a security, industry, or sector; historical and projected issuer financial performance, credit ratings, issuer specific news; and other available relevant information. To determine whether an impairment is other-than-temporary, we consider whether we have the intent to sell the impaired security or if it will be more likely than not that we will be required to sell the impaired security before a market price recovery and whether evidence indicating the cost of the investment is recoverable outweighs evidence to the contrary.

In determining whether a credit loss existed, we used our best estimate of the present value of cash flows expected to be collected from each debt security. For these cash flow estimates, including prepayment assumptions, we rely on data from widely accepted third party data sources or internal estimates. In addition to prepayment assumptions, cash flow estimates vary based on assumptions regarding the underlying collateral including default rates, recoveries, and changes in value. Expected cash flows were discounted using the effective interest rate implicit in the securities.

Based on this analysis, there were no other-than-temporary impairments, including credit-related impairments, during the years ended December 31, 2016, 2015, and 2014. We have determined that gross unrealized losses on short-term investments at December 31, 2016 and 2015 are temporary in nature because each investment meets our investment policy and credit quality requirements. We have the ability and intent to hold these investments until they recover their unrealized losses, which may not be until maturity. Evidence that we will recover our investments outweighs evidence to the contrary.

We classify our investments as current or noncurrent based on the nature of the investments and their availability for use in current operations.

Restricted Investments and Cash Equivalents

As explained further in Note 8—Commitments and Contingencies, we have restricted investments and cash equivalents of $6.3 million as of December 31, 2016 related to a lease entered into with Bank of Tokyo—Mitsubishi UFJ Leasing & Financing LLC ("BTMU") related to the construction of manufacturing and warehouse facilities in Manchester, New Hampshire, in our Industrial Inkjet operating segment.

The funds pledged under the lease represent 115% of the total expenditures made by BTMU through December 31, 2016. The funds are invested in $5.1 and $1.2 million of U.S. government securities and cash equivalents, respectively, with a third party trustee and are restricted during the construction period. Upon completion of construction, the funds will be released as cash and cash equivalents. The portion of released funds representing 100% of the total expenditures made by BTMU will be deposited with BTMU and restricted as collateral until the end of the underlying lease period.

Fair Value of Financial Instruments

We assess the fair value of our financial instruments each reporting period. The carrying amounts of cash, cash equivalents, accounts receivable, accounts payable, and accrued and other liabilities, approximate their respective fair values due to the short maturities of these financial instruments. The fair value of our available-for-sale securities, contingent acquisition-related liabilities, self-insurance liability, derivative instruments, and convertible senior notes are disclosed in Note 6—Investments and Fair Value Measurements of the Notes to Consolidated Financial Statements.

Revenue Recognition

We derive our revenue primarily from product revenue, which includes hardware (DFEs, design-licensed solutions including upgrades, industrial digital inkjet printers including components replaced under maintenance agreements, and ink), software licensing and development, and royalties. We receive service revenue from software license and printer maintenance agreements, customer support, training, and consulting.

We recognize revenue on the sale of DFEs, printers, and ink in accordance with the provisions of SEC Staff Accounting Bulletin (“SAB”) 104, Revenue Recognition, and when applicable, ASC 605-25. As such, revenue is generally recognized when persuasive evidence of an arrangement exists, the product has been delivered or services have been rendered, the fee is fixed or determinable, and collection of the resulting receivable is reasonably assured.

Products generally must be shipped against written purchase orders. We use either a binding purchase order or signed contract as evidence of an arrangement. Sales to the leading printer manufacturers are generally evidenced by a master agreement governing the relationship together with a binding purchase order. Sales to our resellers are also evidenced by binding purchase orders or signed contracts and do not generally contain rights of return or price protection. Our arrangements generally do not include product acceptance clauses. When acceptance is required, revenue is recognized when the product is accepted by the customer.

Delivery of hardware generally is complete when title and risk of loss is transferred at point of shipment from manufacturing facilities, or when the product is delivered to the customer’s local common carrier. We also sell products and services using sales arrangements with terms resulting in different timing for revenue recognition as follows:

- if the title and/or risk of loss is transferred at a location other than our manufacturing facility, revenue is recognized when title and risk of loss transfers to the customer, per the terms of the agreement;
- if title is retained until payment is received, revenue is recognized when title is passed upon receipt of payment;
- if the sales arrangement is classified as an operating lease, revenue is recognized ratably over the lease term;
- if the sales arrangement is classified as a sales-type lease, revenue is recognized upon shipment;

- if the sales arrangement is a fixed price for performance extending over a long period and our right to receive future payment depends on our future performance in accordance with these agreements, revenue is recognized under the percentage of completion method.

We assess whether the fee is fixed or determinable based on the terms of the contract or purchase order. We assess collectibility based on a number of factors, including past transaction history with the customer, the creditworthiness of the customer, customer concentrations, current economic trends and macroeconomic conditions, changes in customer payment terms, the length of time receivables are past due, and significant one-time events. We may not request collateral from our customers, although down payments or letters of credit are generally required from Industrial Inkjet and Productivity Software customers to ensure payment. If we determine that collection of a fee is not reasonably assured, we defer the fee and recognize revenue when collection becomes reasonably assured, which is generally upon receipt of cash.

We license our software primarily under perpetual licenses. Software revenue consists of licensing, post-contract customer support, and professional consulting. We apply the provisions of ASC 985-605, Software—Revenue Recognition, and if applicable, SAB 104, and ASC 605-25, to all transactions involving the sale of software products and hardware transactions where the software is not incidental.

We enter into contracts to sell our products and services. While the majority of our sales agreements contain standard terms and conditions, there are agreements containing multiple elements or non-standard terms and conditions. As a result, significant contract interpretation is sometimes required to determine the appropriate accounting, including whether the deliverables specified in a multiple element arrangement should be treated as separate units of accounting for revenue recognition purposes, and, if so, how the price should be allocated among the elements and when to recognize revenue for each element. We recognize revenue for delivered elements only when the delivered elements have stand-alone value, uncertainties regarding customer acceptance are resolved, and there are no customer-negotiated refund or return rights for the delivered elements. If the arrangement includes a customer-negotiated refund or right of return relative to the delivered item and the delivery and performance of the undelivered item is considered probable and substantially in our control, the delivered element constitutes a separate unit of accounting. We limit revenue recognition for delivered elements to the amount that is not contingent on the future delivery of products or services, future performance obligations, or subject to customer-specified return or refund privileges. Changes in the allocation of the sales price between elements may impact the timing of revenue recognition, but will not change the total revenue recognized on the contract.

Multiple-Deliverable Arrangements

We recognize revenue in multiple element arrangements involving tangible products containing software and non-software components that function together to deliver the product's essential functionality by applying the relative sales price method of allocation in accordance with ASC 605-25. The sales price for each element is determined using VSOE when available (including post-contract customer support, professional services, hosting, and training). When VSOE is not available, then TPE is used. If VSOE or TPE are not available, then BESP is used when applying the relative sales price method for each unit of accounting. When the arrangement includes software and non-software elements, revenue is first allocated to the non-software and software elements as a group based on their relative sales price. Thereafter, the relative sales price allocated to the software elements as a group is further allocated to each unit of accounting in accordance with ASC 985-605. We then defer revenue with respect to the relative sales price that was allocated to any undelivered element.

We have calculated BESP for software licenses and non-software deliverables. We considered several different methods of establishing BESP including cost plus a reasonable margin, stand-alone sales price of the same or similar products, and if available, targeted rate of return, list price less discount, and company published list prices to identify the most appropriate representation of the estimated sales price of our products. Due to the wide range of pricing offered to our customers, we determined that sales price of the same or similar products, list price less discount, and company published list prices were not appropriate methods to determine BESP for our products. Cost plus a reasonable margin and targeted rate of return were eliminated due to the difficulty in determining the cost associated with the intangible elements of each product's cost structure. As a result, management believes that the best estimate of the sales price of an element is the median sales price of deliverables sold in stand-alone transactions and/or separately priced deliverables contained in bundled arrangements. Elements sold as stand-alone transactions and in bundled arrangements during the four quarters immediately preceding the end of each reporting period were included in the calculation of BESP.

When historical data is unavailable to calculate and support the determination of BESP on a newly launched or customized product, then BESP of similar products is substituted for revenue allocation purposes. We offer customization for some of our products. Customization does not have a significant impact on the discounting or pricing of our products.

We have insignificant transactions where tangible and software products are sold together in a bundled arrangement. Accounting Standards Update ("ASU") 2009-14, Certain Revenue Arrangements that Include Software Elements, determined that tangible products containing software and non-software components that function together to deliver the product's essential functionality are not required to follow the software revenue recognition guidance in ASC 985-605 as long as the hardware components of the tangible product substantively contribute to its functionality. In addition, hardware components of tangible products containing software components shall always be excluded from the guidance in ASC 985-605. Non-software elements are accounted for in accordance with SAB 104.

Multiple element arrangements containing only software elements remain subject to the provisions of ASC 985-605 and must follow the residual method. When several elements of a multiple element arrangement, including software licenses, post-contract customer support, hosting, and professional services, are sold to a customer through a single contract, the revenue from such multiple element arrangements are allocated to each element using the residual method in accordance with ASC 985-605. Revenue is allocated to the support elements and professional service elements of an agreement using VSOE and to the software license elements of the agreement using the residual method. We have established VSOE for professional services and hosting based on the rates charged to our customers in stand-alone orders. We have also established VSOE for post-contract customer support based on substantive renewal rates. Accordingly, software license fees are recognized under the residual method for arrangements in which the software was licensed with maintenance and/or professional services, and where the maintenance and professional services were not essential to the functionality of the delivered software.

Subscription Arrangements

We have subscription arrangements where the customer pays a fixed fee and receives services over a period of time. We recognize subscription revenue ratably over the service period. Any up front setup fees associated with our subscription arrangements are recognized ratably, generally over one year. Any up front setup fees that are not associated with our subscription arrangements are recognized upon completion.

Leasing Arrangements

If the sales arrangement is classified as a sales-type lease, then revenue is recognized upon shipment. Leases that are not classified as sales-type leases are accounted for as operating leases with revenue recognized ratably over the lease term.

A lease is classified as a sales-type lease with revenue recognized upon shipment if the lease is determined to be collectible and has no significant uncertainties and if any of the following criteria are satisfied:

- present value of all minimum lease payments is greater than or equal to 90% of the fair value of the equipment at lease inception,
- noncancellable lease term is greater than or equal to 75% of the economic life of the equipment,
- bargain purchase option that allows the lessee to purchase the equipment below fair value, or
- transfer of ownership to the lessee upon termination of the lease.

Long-term Contracts Involving Substantial Customization

We have established our ability to produce estimates sufficiently dependable to require that we follow the percentage of completion method with respect to fixed price contracts where we provide information technology system development and implementation services.

Revenue on such fixed price contracts is recognized over the contract term based on the percentage of development and implementation services that are provided during the period compared with the total estimated development and implementation services to be provided over the entire contract using guidance from ASC 605-35, Revenue Recognition—Construction-Type and Production-Type Contracts. These services require that we perform significant, extensive, and complex design, development, modification, or implementation activities of our customers' systems. Performance will often extend over long periods, and our right to receive future payment depends on our future performance in accordance with these agreements.

We recognize losses on long-term fixed price contracts in the period that the contractual loss becomes probable and estimable. We record amounts invoiced to customers in excess of revenue recognized as deferred revenue until the revenue recognition criteria are met. We record revenue that is earned and recognized in excess of amounts invoiced on fixed price contracts as trade receivables.

Deferred Revenue and Related Deferred Costs

Deferred revenue represents amounts received in advance for product support contracts, software customer support contracts, consulting and integration projects, or product sales. Product support contracts include stand-alone product support packages, routine maintenance service contracts, and upgrades or extensions to standard product warranties. We defer these amounts when we invoice the customer and then generally recognize revenue either ratably over the support contract life, upon performing the related services, under the percentage of completion method, or in accordance with our revenue recognition policy. Deferred cost of revenue related to unrecognized revenue on shipments to customers was $3.4 and $8.7 million as of December 31, 2016 and 2015, respectively, and is included in other current assets in our Consolidated Balance Sheets.

Shipping and Handling Costs

Amounts billed to customers for shipping and handling costs are included in revenue. Shipping and handling costs are charged to cost of revenue as incurred.

Allowance for Doubtful Accounts and Sales-related Allowances

We establish an allowance for doubtful accounts to ensure that trade receivables are not overstated due to uncollectibility. We record specific reserves for individual accounts when we become aware of specific customer circumstances, such as bankruptcy filings, deterioration in the customer's operating results or financial position, or potential unfavorable outcomes from disputes with customers or vendors.

We perform ongoing credit evaluations of the financial condition of our printer manufacturer, third-party distributor, reseller, and other customers and require collateral, such as letters of credit and bank guarantees, in certain circumstances. The past due or delinquency status of a receivable is based on the contractual payment terms of the receivable. The need to write off a receivable balance depends on the age, size, and determination of collectibility of the receivable. Balances are written off when we deem it probable that the receivable will not be recovered.

We make provisions for sales rebates and revenue adjustments based on analysis of current sales programs and revenue in accordance with our revenue recognition policy.

Financing Receivables

ASC 310, Receivables, requires disclosures regarding the credit quality of our financing receivables and allowance for credit losses including disclosure of credit quality indicators, past due information, and modifications of our financing receivables. Our financing receivables were \$31.0 and \$14.8 million consisting of \$17.8 and \$10.2 million of sales-type lease receivables, included within other current assets and other assets, and \$13.2 and \$4.6 million of trade receivables having a contractual maturity in excess of one year at December 31, 2016 and 2015, respectively. The trade receivables of \$13.2 and \$4.6 million having an original total contractual maturity in excess of one year at December 31, 2016 and 2015, include \$7.1 and \$3.2 million, respectively, which are scheduled to be received in less than one year. The credit quality of financing receivables is evaluated on the same basis as trade receivables. We do not have material past due financing receivables.

Concentration of Risk

We are exposed to credit risk in the event of default by any of our customers to the extent of amounts recorded in the Consolidated Balance Sheet. We perform ongoing evaluations of the collectibility of accounts receivable balances for our customers and maintain allowances for estimated credit losses. Actual losses have not historically been significant, but have risen over the past several years as our customer base has grown through acquisitions.

Our Fiery products, which constitute approximately 28% of revenue for the year ended December 31, 2016, are primarily sold to a limited number of leading printer manufacturers. Although end customer and reseller channel preference for Fiery products drives demand, most Fiery revenue relies on these significant printer manufacturer / distributors to integrate Fiery technology into the design and development of their print engines. We expect that we will continue to depend on a relatively small number of leading printer manufacturers for a significant portion of our revenue, although their significance is expected to decline in future periods as our revenue increases from Industrial Inkjet and Productivity Software products. We generally have experienced longer accounts receivable collection cycles in our Industrial Inkjet and Productivity Software operating segments compared to our Fiery operating segment as, historically, the leading printer manufacturers have paid on a more timely basis. Down payments are generally required from Industrial Inkjet and Productivity Software customers as a means to ensure payment.

Since Europe is composed of varied countries and regional economies, our European risk profile is somewhat more diversified due to the varying economic conditions among the countries. Approximately 28% of our receivables are with European customers as of December 31, 2016. Of this amount, 26% of our European receivables (7% of consolidated net receivables) are in the higher risk southern European countries (mostly Spain, Portugal, and Italy).

We rely on a limited number of suppliers for certain key components, including textile ink, and a few key contract manufacturers for our Fiery DFEs, label and packaging digital inkjet printers, and certain Industrial

Inkjet subassemblies. Any disruption or termination of these arrangements could materially adversely affect our operating results.

Many of our current Fiery and Productivity Software products include software that we license from Adobe. To obtain licenses from Adobe, Adobe requires that we obtain quality assurance approvals from them for our products that use Adobe software.

Accounts Receivable Sales Arrangements

We have facilities in Spain and Italy that enable us to sell to third parties, on an ongoing basis, certain trade receivables without recourse. Trade receivables sold without recourse are generally short-term receivables with payment due dates of less than one year, which are secured by international letters of credit. Trade receivables sold under these facilities were \$3.5 and \$3.7 million during the years ended December 31, 2016 and 2015, respectively, which approximates the cash received.

We have facilities in the U.S. and Italy that enable us to sell to third parties, on an ongoing basis, certain trade receivables with recourse. The trade receivables sold with recourse are generally short-term receivables with payment due dates of less than 10 days after year end, which are subject to a servicing obligation. Trade receivables sold under these facilities were \$19.8 and \$23.2 million during the years ended December 31, 2016 and 2015, respectively, which approximates the cash received.

In accordance with ASC 860-20, Transfers and Servicing, trade receivables are derecognized from our Consolidated Balance Sheet when sold to third parties upon determining that such receivables are presumptively beyond the reach of creditors in a bankruptcy proceeding. The recourse obligation is measured using market data from similar transactions and the servicing liability is determined based on the fair value that a third party would charge to service these receivables. These liabilities were determined to not be material at December 31, 2016 and 2015.

We report collections from the sale of trade receivables to third parties as operating cash flows in the Consolidated Statements of Cash Flows.

Inventories

Inventories are generally stated at standard cost, which approximates the lower of actual cost, using the first-in, first-out cost flow assumption, or market. We periodically review our inventories for potential excess or obsolete items and write down specific items to net realizable value as appropriate. Work-in-process inventories consist of our product at various levels of assembly and include materials, labor, and manufacturing overhead. Finished goods inventory represents completed products awaiting shipment.

We estimate potential future inventory obsolescence and purchase commitments to evaluate the need for inventory reserves. Current economic trends, changes in customer demand, product design changes, product life, demand, and the acceptance of our products are analyzed to evaluate the adequacy of such reserves.

Property and Equipment, Net

Property and equipment is recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows: desktop and laptop computers (two years), computer server equipment (three years), software under perpetual licenses (three to five years), manufacturing equipment (seven years), testing and other equipment (three years), tooling (lesser of three years or the product life), research and development equipment with alternative future uses (three years), equipment leased to customers on operating leases (greater of three years or the lease term), furniture (five years), land improvements such as parking lots or sidewalks (seven years), leasehold improvements (the lease term), building improvements (five to ten years), building and improvements under a build-to-suit lease (forty years), and purchased buildings (forty years). When assets are disposed, the asset and accumulated depreciation are removed from our records and the related gain or loss is recognized in our results of operations.

Depreciation expense was $14.1, $12.2, and $9.9 million for the years ended December 31, 2016, 2015, and 2014, respectively. Repairs and maintenance expenditures are expensed as incurred, unless they are considered to be improvements and extend the useful life of the property and equipment.

Internal Use Software

In accordance with ASC 350-40, Intangibles—Goodwill and Other—Internal-Use Software, software development costs, including costs incurred to purchase third party software, are capitalized during the application development stage when certain factors are present including, among others, that technology exists to achieve the performance requirements, management has committed to funding the project, and conceptual formulation, design, and testing of possible software alternatives (preliminary project phase) have all been completed. Costs incurred during the preliminary project phase, post-implementation /operational phase, process re-engineering, training, and maintenance must be expensed as incurred. The accumulation of software costs to be capitalized ceases when the software is substantially developed and is ready for its intended use. Capitalized internal use software is amortized over an estimated useful life of three to five years using the straight-line method.

Goodwill

Goodwill is recorded when the consideration paid for an acquisition exceeds the fair value of net tangible and intangible assets acquired. We perform our annual goodwill impairment analysis in the fourth quarter of each year or more frequently if we believe indicators of impairment exist. Triggering events that may require an impairment analysis include indicators such as adverse industry or economic trends, restructuring actions, significant changes in the manner of our use of the acquired assets, significant changes in the strategy for our overall business, lower projections of profitability, significant decline in our stock price for a sustained period, or a sustained decline in our market capitalization.

According to the provisions of ASC 350-20-35, a two-step impairment test of goodwill is required, unless the simplified method is elected. In the first step, the fair value of each reporting unit is compared to its carrying value. If the fair value exceeds carrying value, goodwill is not impaired and further testing is not required. If the carrying value exceeds fair value, then the second step of the impairment test is required to determine the implied fair value of the reporting unit's goodwill. The implied fair value of goodwill is calculated by deducting the fair value of all tangible and intangible net assets of the reporting unit, excluding goodwill, from the fair value of the reporting unit as determined in the first step. If the carrying value of the reporting unit's goodwill exceeds its implied fair value, then an impairment loss must be recorded equal to the difference. We have not been required to perform this second step of the process because the fair value of our reporting units have exceeded their carrying value as of December 31, 2016, 2015, and 2014.

Long-lived Assets, including Intangible Assets

Purchased intangible assets are amortized on a straight-line basis over their economic lives of two to six years for developed technology, three to nine years for customer contracts/relationships, four to five years for covenants not to compete, and three to sixteen years for trademarks and trade names as we believe this method most closely reflects the pattern in which the economic benefits of the assets will be consumed. The useful life of certain developed technology was reduced during 2016 based on a re-assessment of the useful life of the technology with a $1.6 million impact on amortization expense. No changes have been made to the useful lives of amortizable identifiable intangible assets in 2015 or 2014. Intangible amortization expense was $39.6, $26.5, and $20.7 million for the years ended December 31, 2016, 2015, or 2014, respectively.

We review the carrying values of long-lived assets whenever events and circumstances, such as reductions in demand, lower projections of profitability, significant changes in the manner of our use of acquired assets, or significant negative industry or economic trends, indicate that the net book value of an asset may not be recovered through expected future cash flows from its use and eventual disposition. If this review indicates that an impairment has occurred, the impaired asset is written down to its fair value, which is typically calculated using quoted market prices and/or expected future cash flows. Our estimates regarding future anticipated net revenue and cash flows, the remaining economic life of the products and technologies, or both, may differ from those used to assess the recoverability of assets. In that event, impairment charges or shortened useful lives of certain long-lived assets may be required, resulting in charges to our Consolidated Statements of Operations when such determinations are made. No asset impairment charges were recognized during the years ended December 31, 2016, 2015, or 2014.

Warranty Reserves

Our Industrial Inkjet printers are generally accompanied by a 12-month limited warranty, which covers both parts and labor. Our Fiery DFE limited warranty is 12 to 15 months. Estimated future hardware and software warranty costs are recorded as a cost of product revenue when the related revenue is recognized based on historical and projected warranty claim rates, historical and projected cost-per-claim, and knowledge of specific product failures that are outside our typical experience. Factors that affect our warranty liability include the number of installed units subject to warranty protection, product failure rates, estimated material costs, estimated distribution costs, and estimated labor costs.

Warranty reserves were $10.3 and $9.6 million as of December 31, 2016 and 2015, respectively.

Litigation Accruals

We may be involved, from time to time, in a variety of claims, lawsuits, investigations, or proceedings relating to contractual disputes, securities laws, intellectual property rights, employment, or other matters that may arise in the normal course of business. We assess our potential liability in each of these matters by using the information available to us. We develop our views on estimated losses in consultation with inside and outside counsel, which involves a subjective analysis of potential results and various combinations of appropriate litigation and settlement strategies. We accrue estimated losses from contingencies if a loss is deemed probable and can be reasonably estimated.

Restructuring Reserves

Restructuring liabilities are established when the costs have been incurred. Severance and other employee separation costs are incurred when management commits to a plan of termination identifying the number of employees impacted, their termination dates, and the terms of their severance arrangements. The liability is accrued at the employee notification date unless service is required beyond the greater of 60 days or the legal notification period, in which case the liability is recognized ratably over the service period. Facility downsizing and closure costs are accrued at the earlier of the lessor notification date, if the lease agreement allows for early termination, or the cease use date. Relocation costs are incurred when the related relocation services are performed. Costs related to contracts without future benefit are incurred at the earlier of the cease use date or the contract cancellation date.

Research and Development

Research and development costs were $151.2, $141.4, and $134.7 million for the years ended December 31, 2016, 2015, and 2014, respectively. We expense research and development costs associated with new software products as incurred until technological feasibility is established. Research and development costs include salaries and benefits of employees performing research and development activities, supplies, and other expenses incurred from research and development efforts. To date, we have not capitalized research and development costs associated with software development as products and enhancements have generally reached technological feasibility, as defined by U.S. GAAP, and have been released for sale at substantially the same time. We have capitalized research and development equipment that has been acquired or constructed for research and development activities and has alternative future uses (in research and development projects or otherwise). Such research and development equipment is depreciated on a straight-line basis with a three year useful life.

Advertising

Advertising costs are expensed as incurred. Total advertising and promotional expenses were $4.6, $4.3, and $4.3 million for the years ended December 31, 2016, 2015, and 2014, respectively.

Income Taxes

We account for income taxes in accordance with the provisions of ASC 740, which requires that deferred tax assets and liabilities be determined based on the differences between the financial statement and tax bases of assets and liabilities by using enacted tax rates in effect for the year in which the differences are expected to reverse. We estimate our actual current tax expense including permanent charges and benefits and the temporary differences resulting from differing treatment of items for tax and financial accounting purposes such as deferred revenue. These differences result in deferred tax assets and liabilities, which are included in our Consolidated Balance Sheets.

We assess the likelihood that our deferred tax assets will be recovered from future taxable income by considering both positive and negative evidence relating to their recoverability. If we believe that recovery of these deferred tax assets is not more likely than not, we establish a valuation allowance. Significant judgment is required in determining any valuation allowance recorded against deferred tax assets.

In assessing the need for a valuation allowance, we considered all available evidence, including recent operating results, projections of future taxable income, our ability to utilize loss and credit carryforwards, and the feasibility of tax planning strategies. Other than a valuation allowance related to realization of existing California, Luxembourg, Israel, Netherlands, and Turkey deferred tax assets, we have determined that it is more likely than not that we will realize the benefit related to all other deferred tax assets. To the extent we increase a valuation allowance, we include an expense in the Consolidated Statement of Operations in the period in which such determination is made.

We account for uncertainty in income taxes by recognizing a tax position only when it is more likely than not that the tax position, based on its technical merits, will be sustained upon ultimate settlement with the applicable tax authority. The tax benefit to be recognized is the largest amount of tax benefit that is greater than fifty percent likely of being realized upon ultimate settlement with the applicable tax authority that has full knowledge of all relevant information. Tax benefits that are deemed to be less than fifty percent likely of being realized are recorded in noncurrent income taxes payable until the uncertainty has been resolved through either examination by the relevant taxing authority or expiration of the pertinent statutes of limitations.

Business Combinations

We allocate the purchase price of acquired companies to the tangible and intangible assets acquired, including IPR&D, and liabilities assumed based on their estimated fair values. Such a valuation requires management to make significant estimates and assumptions, especially with respect to intangible assets. The results of operations for each acquisition are included in our financial statements from the date of acquisition.

Our acquisitions are accounted for as purchase business combinations using the acquisition method of accounting in accordance with ASC 805. Key provisions of the acquisition method of accounting include the following:

- one hundred percent of assets and liabilities of the acquired business, including goodwill, are recorded at fair value, regardless of the percentage of the business acquired;
- contingent assets and liabilities are recognized at fair value at the acquisition date;
- contingent consideration is recognized at fair value at the acquisition date with changes in fair value recognized in earnings as assumptions are updated or upon settlement;
- IPR&D is recognized at fair value at the acquisition date subject to amortization after product launch or otherwise assessed for impairment;
- acquisition-related transaction and restructuring costs are expensed as incurred;
- reversals of valuation allowances related to acquired deferred tax assets and liabilities and changes to acquired income tax uncertainties are recognized in earnings;
- when making adjustments to finalize preliminary accounting during the measurement period, which may be up to one year, we recognize measurement period adjustments in the reporting period in which the adjustment amounts are determined as required by ASU 2015-16, Simplifying the Accounting for Measurement Period Adjustments; and
- upon final determination of the fair value of assets acquired and liabilities assumed during the measurement period, any subsequent adjustments are recorded to our Consolidated Statements of Operations.

Stock-Based Compensation

We account for stock-based compensation in accordance with ASC 718, which requires stock-based compensation expense to be recognized based on the fair value of such awards on the date of grant. We amortize stock-based compensation expense on a graded vesting basis over the vesting period after assessing the probability of achieving the requisite performance criteria with respect to performance-based awards. Stock-based compensation expense is recognized over the requisite service period for each separately vesting tranche as though the award were, in substance, multiple awards.

Forfeitures have been estimated at the grant date and revised on a cumulative basis, if necessary, in subsequent periods if actual forfeitures differ from those estimates. We used historical data and future expectations of employee turnover to estimate forfeitures. Upon adoption of ASU 2016-09, Stock Compensation—Improvements to Employee Share Based Payment Accounting, in 2016, we elected to account for forfeitures when they occur instead of estimating the expected forfeiture rate.

Our determination of the fair value of stock-based payment awards on the date of grant using an option pricing model is affected by volatility, expected term, and interest rate assumptions. Expected volatility is based on the historical volatility of our stock over a preceding period commensurate with the expected term of the option. The expected term is based on management's consideration of the historical life of the options, the vesting period of the options granted, and the contractual period of the options granted. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant. Expected dividend yield was not considered in the option pricing formula since we do not pay dividends and have no current plans to do so in the future.

The tax benefit resulting from tax deductions in excess of the tax benefits related to stock-based compensation expense recognized for those awards are classified as financing cash flows.

Foreign Currency Translation

In preparing our consolidated financial statements, for subsidiaries that operate in a U.S. dollar functional currency environment, we remeasure balance sheet monetary items into U.S. dollars. Foreign currency assets and liabilities are remeasured from the transaction currency into the functional currency at current exchange rates, except for non-monetary assets, liabilities, and capital accounts, which are remeasured at historical exchange rates. Revenue and expenses are remeasured at monthly exchange rates, which approximate average exchange rates in effect during each period. Gains or losses from foreign currency remeasurement are included in interest income and other income (expense), net. Net gains or losses resulting from foreign currency transactions, including hedging gains and losses, are reported in interest income and other income (expense), net, and were losses of $3.8, $4.2, and $6.8 million for the years ended December 31, 2016, 2015, and 2014, respectively.

For subsidiaries that operate in a local functional currency environment, all assets and liabilities are translated into U.S. dollars using current exchange rates, while revenue and expenses are translated using monthly exchange rates, which approximate the average exchange rates in effect during each period. Resulting translation adjustments are reported as a separate component of OCI, adjusted for deferred income taxes. The cumulative translation adjustment balance, net of tax, at December 31, 2016 and 2015 was unrealized losses of $24.2 and $17.0 million, respectively.

Based on our assessment of the salient economic indicators discussed in ASC 830-10-55-5, Foreign Currency Matters, we consider the U.S. dollar to be the functional currency for each of our international subsidiaries except for our Brazilian subsidiary, Metrics, for which we consider the Brazilian real to be the subsidiary's functional currency; our German subsidiaries, EFI GmbH and Alphagraph, for which we consider the Euro to be the subsidiaries' functional currency; our Italian subsidiary, Reggiani, for which we consider the Euro to be the functional currency; our Spanish subsidiary, Cretaprint, for which we consider the Euro to be the subsidiary's functional currency; our U.K. subsidiaries, Electronics For Imaging United Kingdom Limited, Shuttleworth, and Rialco, for which we consider the British pound sterling to be the subsidiaries' functional currency; our Israeli subsidiary, Matan, for which we consider the shekel to be the functional currency; our Japanese subsidiary, Electronics For Imaging Japan KK, for which we consider the Japanese yen to be the subsidiary's functional currency; our New Zealand subsidiary contains the Prism Group Holdings Limited ("Prism") operations in New Zealand for which we consider the New Zealand dollar to be the functional currency; our Australian subsidiary contains the Prism, OPS, and Metrix operations in Australia for which we consider the Australian dollar to be the functional currency; and our subsidiary in the People's Republic of China, which contains the operations of our Cretaprint sales and support center and our Industrial Inkjet demonstration center for which we consider the renminbi to be the functional currency. Optitex generates revenue and incurs operating expenses primarily in local currencies. Upon consideration of the salient economic indicators, we consider the local currency in each of Optitex's primary locations (shekel, rupee, Euro, and U.S. dollar) to be the functional currencies for Optitex.

Net Income per Common Share

Net income per basic common share is computed using the weighted average number of common shares outstanding during the period. Net income per diluted common share is computed using the weighted average number of common shares and dilutive potential common shares outstanding during the period. Potential common shares result from the assumed exercise of outstanding common stock options having a dilutive effect using the treasury stock method, non-vested shares of restricted stock having a dilutive effect, non-vested restricted stock for which the performance criteria have been met, shares to be purchased under our ESPP having a dilutive effect, the assumed issuance at the beginning of 2016 of shares potentially issued from escrow related to the acquisition of CTI, the assumed issuance at the beginning of 2016 of shares issued from escrow during 2016 related to the acquisition of Reggiani, the assumed conversion of our Notes having a dilutive effect using the treasury stock method, as well as the dilutive effect of our warrants when the stock price exceeds the conversion price of the Notes. Any potential shares that are anti-dilutive as defined in ASC 260, Earnings Per Share, are excluded from the effect of dilutive securities.

Performance-based and market-based restricted stock and stock options that would be issuable if the end of the reporting period were the end of the vesting period, if the result would be dilutive, are assumed to be outstanding for purposes of determining net income per diluted common share as of the later of the beginning of the period or the grant date in accordance with ASC 260-10-45-48.

Derivative Instruments and Risk Management

Our derivative instruments consist of foreign currency exchange contracts as described below:

Cash Flow Hedges

We utilize foreign currency exchange forward contracts to hedge foreign currency exchange exposures related to forecasted operating expenses denominated in Indian rupees. These derivative instruments are designated and qualify as cash flow hedges and in general, closely match the underlying forecasted transactions in duration. The changes in fair value of these contracts are reported as a component of OCI and reclassified to operating expense in the periods of payment of the hedged operating expenses. We measure the effectiveness of hedges of forecasted transactions by comparing the fair value of the designated foreign currency exchange forward purchase contracts with the fair values of the forecasted transactions. The ineffective portion of the derivative hedging gain or loss, as well as changes in the derivative time value (which is excluded from the assessment of hedge effectiveness), are recognized as a component of interest income and other income (expense), net.

Balance Sheet Hedges

We utilize foreign currency exchange forward and option contracts to hedge against the short-term impact of foreign currency exchange rate fluctuations related to certain foreign-currency-denominated monetary assets and liabilities, primarily consisting of Brazilian real, British pound sterling, Israeli shekel, Australian dollar, Japanese yen, Chinese renminbi, and Euro-denominated intercompany balances; Brazilian real, British pound sterling, Australian dollar, Israeli shekel, and Euro-denominated trade receivables; and British pound sterling, Indian rupee, and Euro-denominated other net monetary assets. These derivative instruments are not designated for hedge accounting treatment since there is a natural offset for the remeasurement of the underlying foreign currency denominated asset or liability. We recognize changes in the fair value of non-designated derivative instruments in earnings in the period of change. Gains and losses on foreign currency forward contracts used to hedge balance sheet exposures are recognized in interest income and other income (expense), net, in the same period as the remeasurement gain or loss of the related foreign currency denominated assets and liabilities.

Factors that could have an impact on the effectiveness of our balance sheet and cash flow hedging program include the accuracy of forecasts and the volatility of foreign currency markets. These programs reduce, but do not entirely eliminate, the impact of currency exchange movements. The maturities of these instruments are generally less than one year. Currently, we do not enter into any foreign exchange forward contracts to hedge exposures related to firm commitments or nonmarketable investments. We do not have any leveraged derivatives, nor do we use derivative contracts for speculative purposes. The related cash flow impacts of our derivative contracts are reflected as cash flows from operating activities in the Consolidated Statements of Cash Flows.

Variable Interest Entities

In accordance with the Variable Interest Entities ("VIE") sub-section of ASC 810, Consolidation, we perform a formal assessment at each reporting period regarding whether any consolidated entity is considered the primary beneficiary of a VIE based on the power to direct activities that most significantly impact the economic performance of the entity and the obligation to absorb losses or rights to receive benefits that could be significant to us. We do not have any arrangements that meet the definition of a VIE.

Recent Accounting Pronouncements

Debt Issuance Costs. In April 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs, which is effective in the first quarter of 2016. ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt, which is consistent with the presentation of debt discounts and premiums. Retrospective application is required, which resulted in the reclassification of $5.8 million of debt issuance costs from other current assets and other assets to a direct reduction of our 7.5% Convertible Senior Notes, net, due 2019 ("Notes") in our Consolidated Balance Sheet as of December 31, 2015.

Inventory Valuation. In July 2015, the FASB issued ASU 2015-11, Simplifying the Measurement of Inventory, which is effective in the first quarter of 2017. ASU 2015-11 requires that inventory be valued at the lower of cost or net realizable value, which is defined as the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. We currently value inventory at the lower of cost or net realizable value less a reasonable profit margin as allowed by the current inventory valuation guidance. The adoption of ASU 2015-11 is expected to increase our inventory valuation in 2017.

Measurement Period Adjustments. In September 2015, the FASB issued ASU 2015-16, Simplifying the Accounting for Measurement Period Adjustments. The acquirer of a business is required to retrospectively adjust provisional amounts recognized at the acquisition date with a corresponding adjustment to goodwill. Those adjustments are required when new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts initially recognized or would have resulted in the recognition of additional assets or liabilities. Under current guidance, the acquirer also must revise comparative prior period information, including depreciation, amortization, or other income affects as a result of changes made to provisional amounts. To simplify the accounting for measurement period adjustments, ASU 2015-16 eliminates the requirement to retrospectively account for those adjustments. The impact on our financial statements will be determined in the future if measurement period adjustments are identified.

Lease Arrangements. Under current guidance, the classification of a lease by a lessee as either an operating lease or a capital lease determines whether an asset and liability is recognized on the balance sheet. ASU 2016-02, issued in February 2016 and effective in the first quarter of 2019, requires that a lessee recognize an asset and liability on its balance sheet related to all leases with terms in excess of one year. For all leases, a lessee will be required to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in the statement of financial position. The right-to-use asset represents the right to use the underlying asset during the lease term.

The recognition, measurement, and presentation of expenses and cash flows by a lessee have not significantly changed from previous guidance. There continues to be a differentiation between finance leases and operating leases. The criteria for determining whether a lease is a financing or operating lease are substantially the same as existing guidance except that the "bright line" percentages have been removed.

- For finance leases, interest is recognized on the lease liability separately from depreciation of the right-of-use asset in the statement of operations. Principal repayments are classified within financing activities and interest payments are classified as operating activities in the statement of cash flows.
- For operating leases, a lessee is required to recognize lease expense generally on a straight-line basis. All operating lease payments are classified as operating activities in the statement of cash flows.

The current build-to-suit lease accounting guidance will be rescinded by the new guidance, although simplified guidance will remain regarding lessee control during the construction period. Consequently, the accounting for build-to-suit leases will be the same as finance leases unless the lessee control provisions are applicable.

We have not quantified the impact, but we expect our consolidated financial position and results of operations to be materially effected.

Principal vs Agent. In March 2016, the FASB issued ASU 2016-08, Principal vs. Agent Considerations (Reporting Revenue Gross vs Net), streamlining and clarifying the criteria for identifying whether an entity is satisfying a performance obligation as the principal or agent in the transaction. The entity that is responsible for fulfilling the contractual obligations related to the good or service is acting as the principal and recognizes the gross amount of consideration. The entity that is responsible only for arranging delivery to the customer is acting as the agent and recognizes revenue in the amount of the fee or commission related to arranging for the delivery of the good or service.

A number of indicators of the nature of the relationship that are considered under current guidance have been streamlined and clarified in the new guidance by focusing more specifically on the performance obligations that must be fulfilled in the transaction, which entity carries the inventory risk in the transaction, and which entity controls the pricing of the good or service. Credit risk will no longer be a criterion. This guidance will be effective in the first quarter of 2018. We are evaluating its impact on our revenue and results of operations.

Stock-based Compensation. In March 2016, the FASB issued ASU 2016-09, which is effective in the first quarter of 2017 with early adoption permitted. We elected to early adopt this standard in the second quarter of 2016, which required retroactive application of this standard as of the first quarter in 2016 resulting in the following:

- Under the new guidance, all excess tax benefits and deficiencies are recognized as income tax expense. Excess tax benefits of less than $0.1 million that were charged to additional paid-in capital in the first quarter of 2016 were reversed upon adoption. We recorded $2.2 million of deferred tax assets related to excess tax benefits for federal research and development income tax credits not previously benefitted.
- The requirement to reclassify gross excess tax benefits related to stock-based compensation from operating to financing activities in the statement of cash flows is eliminated. The reclassification of $0.2 million in the first quarter of 2016 has been reversed upon adoption. We applied this guidance retrospectively to all prior periods to maintain the comparability of presentation between periods, which resulted in a $3.3 million increase in cash flows provided by operating activities during the year ended December 31, 2015, and a corresponding decrease in cash flows provided by financing activities.

- We have elected to account for forfeitures when they occur instead of estimating the expected forfeiture rate. Adoption of this provision during the second quarter resulted in a retroactive net income adjustment of $0.2 million, net of tax effect, in the first quarter of 2016 and a cumulative effect adjustment to retained earnings of $2.1 million, net of tax, as of January 1, 2016.
- Statutory tax withholding will be permitted up to the maximum statutory tax rate in applicable jurisdictions. The retrospective impact of this provision on prior period financial statements is not material.

Financial Instruments. In June 2016, the FABS issued ASU 2016-13, Measurement of Credit Losses on Financial Instruments, amending current guidance regarding other-than-temporary impairment of available-for-sale debt securities. The new guidance requires an estimate of the expected credit loss when fair value is below the amortized cost of the asset without regard for the length of time that the fair value has been below the amortized cost or the historical or implied volatility of the asset. Credit losses on available-for-sale debt securities will be limited to the difference between the security's amortized cost basis and its fair value. The use of an allowance to record estimated credit losses (and subsequent recoveries) will also be required under the new guidance.

ASU 2016-13 will be effective in the first quarter of 2020. We are evaluating its impact on the carrying value of our available-for-sale securities and results of operations.

Settlement of Convertible Debt. In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments, requiring that cash settlements of principal amounts of debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the debt must classify the portion of the principal payment attributable to the accreted interest related to the debt discount as cash outflows from operating activities. This is consistent with the classification of the coupon interest payments.

ASU 2016-15 will be effective in the first quarter of 2018. Accordingly, $63.6 million debt discount attributable to the difference between the 0.75% coupon interest rate on our Notes and the 4.98% (5.46% inclusive of debt issuance costs) effective interest rate will be classified as an operating cash outflow in the Consolidated Statement of Cash Flows upon cash settlement in 2019.

Restricted Cash. In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows: Restricted Cash, requiring that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows.

ASU 2016-18 will be effective in the first quarter of 2018. We are evaluating its impact on our statement of cash flows.

Revenue Recognition. ASU 2014-09, Revenue from Contracts with Customers, issued in May 2014, enhances the comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets. The principles-based guidance provides a framework for addressing revenue recognition issues comprehensively. The standard requires that revenue should be recognized in an amount that reflects the consideration that the entity expects to be entitled in exchange for goods or services, which are referred to as performance obligations.

The guidance requires comprehensive annual and interim disclosures regarding the nature, amount, timing, and uncertainty of recognized revenue. Qualitative and quantitative disclosures will be required regarding:

- contracts with customers, including revenue and impairments recognized, disaggregation, and information about contract balances and performance obligations,
- significant judgments and changes in judgments required to determine the transaction price, amounts allocated to performance obligations, and the timing for recognizing revenue resulting from the satisfaction of performance obligations, and
- assets recognized from the costs to obtain or fulfill a contract.

ASU 2014-09 will be effective in the first quarter of 2018. Two adoption methods are allowed under ASU 2014-09. Under the full retrospective method, the revised guidance is applied to all contracts in all reporting periods presented in the financial statements, subject to certain allowable exceptions. Retained earnings is adjusted for the cumulative effect of the change as of January 1, 2016. Under the modified retrospective method, the revised guidance is applied to all contracts existing as of January 1, 2018, with an adjustment to beginning retained earnings for the cumulative effect of the change and providing additional disclosures comparing results to previous guidance. We continue to evaluate the available adoption methods.

Upon initial evaluation, we believe the key changes in the guidance that impact our revenue recognition relate to the allocation of contract revenues between various services and software licenses, and the timing of when those revenues are recognized. The requirement to defer incremental contract acquisition costs and recognize them over the contract period or expected customer life will result in the recognition of a deferred charge on our balance sheet. We are currently assessing the impact of these requirements on our consolidated financial statements upon adoption.

Supplemental Disclosure of Cash Flow Information

	For the years ended December 31,		
(in thousands)	2016	2015	2014
Net cash paid for income taxes	$ 6,812	$ 8,512	$ 6,157
Cash paid for interest expense	$ 2,975	$ 2,945	$ 128
Acquisitions of businesses and technology:			
Cash paid for businesses and technology purchased, excluding contingent consideration	$21,560	$82,446	$23,888
Cash acquired in business acquisitions	(1,628)	(7,680)	(1,908)
Net cash paid for business acquisitions	$19,932	$74,766	$21,980
Common stock issued in connection with business acquisitions	$ 73	$36,567	$ —
Non-cash investing and financing activities:			
Non-cash settlement of vacation liabilities by issuing RSUs	3,059	$ 1,353	$ —
Property and equipment received, but not paid	1,257	1,684	2,275
	$ 4,316	$ 3,037	$ 2,275

Note 2: Earnings Per Share

Net income per basic common share is computed using the weighted average number of common shares outstanding during the period. Net income per diluted common share is computed using the weighted average number of common shares and dilutive potential common shares outstanding during the period. Potential common shares result from the assumed exercise of outstanding common stock options having a dilutive effect using the treasury stock method, non-vested shares of restricted stock having a dilutive effect, non-vested restricted stock for which the performance criteria have been met, shares to be purchased under our ESPP having a dilutive effect, the assumed issuance at the beginning of 2016 of shares potentially issued from escrow related to the acquisition of CTI, the assumed issuance at the beginning of 2016 of shares issued from escrow during 2016 related to the acquisition of Reggiani, the assumed conversion of our Notes having a dilutive effect using the treasury stock method, as well as the dilutive effect of our warrants when the stock price exceeds the conversion price of the Notes. Any potential shares that are anti-dilutive as defined in ASC 260 are excluded from the effect of dilutive securities.

Performance-based and market-based restricted stock and stock options that would be issuable if the end of the reporting period were the end of the vesting period, if the result would be dilutive, are assumed to be outstanding for purposes of determining net income per diluted common share as of the later of the beginning of the period or the grant date in accordance with ASC 260-10-45-48. Accordingly, performance-based RSUs, which vested on various dates during the years ended December 31, 2016, 2015, and 2014 based on achievement of specified performance criteria related to revenue, cash flows from operating activities, and non-GAAP operating income targets; market-based RSUs, which vested during the year ended December 31, 2015 based on achievement of specified stock prices for defined periods; and performance-based stock options, which vested during the year ended December 31, 2016 are included in the determination of net income per diluted common share as of the beginning of each respective year.

Basic and diluted earnings per share for the years ended December 31, 2016, 2015, and 2014 are reconciled as follows (in thousands, except for per share amounts):

	2016	2015	2014
Basic net income per share:			
Net income available to common shareholders	$45,546	$33,540	$33,714
Weighted average common shares outstanding	46,900	47,217	46,866
Basic net income per share	$ 0.97	$ 0.71	$ 0.72
Dilutive net income per share:			
Net income available to common shareholders	$45,546	$33,540	$33,714
Weighted average common shares outstanding	46,900	47,217	46,866
Dilutive stock options, restricted stock, and ESPP purchase rights	897	933	1,540
Weighted average common shares outstanding for purposes of computing diluted net income per share	47,797	48,150	48,406
Dilutive net income per share	$ 0.95	$ 0.70	$ 0.70

Potential shares of common stock that are not included in the determination of diluted net income per share because they are anti-dilutive for the periods presented consist of ESPP purchase rights having an anti-dilutive effect of less than 0.1 million shares for the years ended December 31, 2016, 2015 and 2014 and the assumed vesting of RSUs having an anti-dilutive effect of less than 0.1 million shares for the year ended December 31, 2016.

The weighted-average number of common shares outstanding does not include the effect of the potential common shares from conversion of our Notes and exercise of our Warrants, which were issued in September 2014. The effects of these potentially outstanding shares were not included in the calculation of diluted net income per share because the effect would have been anti-dilutive since the conversion price of the Notes and the strike price of the Warrants exceeded the average market price of our common stock. We have the option to pay cash, issue shares of common stock, or any combination thereof for the aggregate amount due upon conversion of the Notes. Our intent is to settle the principal amount of the Notes in cash upon conversion. As a result, only amounts payable in excess of the principal amount of the Notes are considered in diluted net income per share under the treasury stock method. The Note Hedges are also not included in the calculation of diluted net income per share because the effect of any exercise of the Note Hedges would be anti-dilutive. Please refer to Note 7—Convertible Senior Notes, Note Hedges, and Warrants of the Notes to Consolidated Financial Statements for additional information.

Note 3: Business Acquisitions

We acquired Optitex Ltd. ("Optitex") and Rialco Limited ("Rialco") during 2016, which have been included in our Productivity Software and Industrial Inkjet operating segments, respectively. Post-acquisition revenue was $19.8 million in 2016 related to these two acquisitions. We acquired Reggiani and Matan during 2015, which has been included in our Industrial Inkjet operating segment, and two business process automation businesses, which have been included in our Productivity Software operating segment. Post-acquisition revenue was $88.4 million in 2015 related to these four acquisitions. We acquired four business process automation businesses during 2014, which have been included in our Productivity Software operating segment. Acquisition-related transaction costs were $2.2, $5.5, and $1.5 million during the years ended December 31, 2016, 2015, and 2014, respectively.

These acquisitions were accounted for as purchase business combinations. We allocated the purchase price to the tangible and identifiable intangible assets acquired and liabilities assumed on the basis of their estimated fair value on their respective acquisition dates. Excess purchase consideration was recorded as goodwill. Factors contributing to a purchase price that results in goodwill include, but are not limited to, the retention of research and development personnel with skills to develop future technology, manufacturing capacity in the Industrial Inkjet operating segment, support personnel to provide maintenance services related to the products, a trained sales force capable of selling current and future products, the opportunity to cross-sell products of the acquired businesses to existing customers, the positive reputation of each of these businesses in the market, the opportunity to sell our Productivity Software Suite to customers of the acquired businesses, the opportunity to expand our presence in the digital inkjet textile printing market through the acquisition of the Reggiani digital inkjet textile printer business, and the synergy of Optitex technology with Reggiani digital inkjet textile printers. Rialco's technical and commercial capabilities benefit the Industrial Inkjet operating segment in the sourcing, specification, and purification of high quality dyes and expand our research, development, and innovation base to develop ink for the signage, ceramic, and packaging markets.

We engaged a third party valuation firm to aid management in its analyses of the fair value of these acquired businesses. All estimates, key assumptions, and forecasts were either provided by or reviewed by us. While we chose to utilize a third party valuation firm, the fair value analyses and related valuations represent the conclusions of management and not the conclusions or statements of any third party.

The purchase price allocations for the 2016 purchase business combinations are preliminary and subject to change within the respective measurement periods as valuations are finalized. We expect to continue to obtain information to assist us in finalizing the fair value of the net assets acquired during the respective measurement periods, which end at various dates in 2017. Measurement period adjustments will be recognized in the reporting period in which the adjustment amounts are determined.

2016 Acquisitions

Industrial Inkjet Operating Segment

Rialco, a private limited liability company incorporated in England and Wales and headquartered in Bradford, U.K., was acquired on March 1, 2016. Rialco has been included in the Industrial Inkjet operating segment.

We purchased Rialco for cash consideration of $8.4 million, net of cash acquired, plus an additional potential future cash earnout, which is contingent on achieving certain revenue and gross profit performance targets over three consecutive 12-month periods. Rialco is a leading European supplier of dye powders and color products for the textile, digital print, and other decorating industries. Rialco's pure disperse dyes are particularly important in the manufacture of high-quality dye sublimation inkjet inks for textile applications, which is a key growth area in the global migration from analog to digital print.

The fair value of the earnout related to the Rialco acquisition is estimated to be $2.3 million at December 31, 2016, by applying the income approach in accordance with ASC 805-30-25-5, adjusted for the impact of post-acquisition foreign currency translation changes. Key assumptions include a risk-free discount rate of 0.8% and probability-adjusted revenue and gross profit levels. Probability-adjusted revenue and gross profit are significant inputs that are not observable in the market, which ASC 820-10-35 refers to as Level 3 inputs. This contingent liability is reflected in the Consolidated Balance Sheet as of December 31, 2016, as a current and noncurrent liability of $1.2 and $1.1 million, respectively, with the first payment due in the third quarter of 2017, if earned. In accordance with ASC 805-30-35-1, changes in the fair value of contingent consideration subsequent to the acquisition date are recognized in general and administrative expenses.

Productivity Software Segment

Optitex, a privately-held Israeli company headquartered in Rosh Ha'Ayin, Israel, was acquired on June 16, 2016. Optitex has been included in the Productivity Software operating segment.

We purchased Optitex for cash consideration of $11.6 million, net of cash acquired, plus an additional potential future cash earnout, which is contingent on achieving certain revenue and operating profit performance targets over three consecutive 12-month periods. Optitex has developed and markets integrated 2D and 3D CAD software that is shortening the design cycle, reducing our customers' costs, and accelerating the adoption of fast fashion.

The fair value of the earnout related to the Optitex acquisition is estimated to be $24.4 million at December 31, 2016, by applying the income approach in accordance with ASC 805-30-25-5, adjusted for the impact of post-acquisition foreign currency translation changes. Key assumptions include a risk-free discount rate of 2.3% and probability-adjusted revenue and operating profit levels. Probability-adjusted revenue and operating profit are significant inputs that are not observable in the market, which ASC 820-10-35 refers to as Level 3 inputs. This contingent liability is reflected in the Consolidated Balance Sheet as of December 31, 2016, as a current and noncurrent liability of $8.4 and $16.0 million, respectively, with the first payment due in the fourth quarter of 2017, if earned. In accordance with ASC 805-30-35-1, changes in the fair value of contingent consideration subsequent to the acquisition date are recognized in general and administrative expenses.

2015 Acquisitions

Industrial Inkjet Operating Segment

On July 1, 2015, we acquired privately-held Reggiani, a *societa per azioni* headquartered in Bergamo, Italy, and privately-held Matan, an Israeli company headquartered in Rosh Ha'Ayin, Israel, which have been included in the Industrial Inkjet operating segment.

We purchased Matan for cash consideration of approximately $38.9 million, net of cash acquired. Matan super-wide format digital inkjet roll-to-roll printers, including advanced material handling features such as in-line cutting and slitting, expand our offerings in this market.

We purchased Reggiani for cash consideration of approximately $26.6 million, net of cash acquired, the issuance of 0.6 million shares of EFI common stock valued at $26.9 million, plus a potential future cash earnout, which is contingent on achieving certain revenue and earnings before interest and tax ("EBIT") performance targets over consecutive 18 and 12-month periods. Reggiani industrial digital inkjet textile printers address the full scope of advanced textile printing with versatile printers suitable for pigmented, reactive dye, acid dye, and water-based dispersed printing ink. This acquisition expands our presence in the digital inkjet textile printing market.

The fair value of the earnout related to the Reggiani acquisition is estimated to be $22.8 million at December 31, 2016, by applying the income approach in accordance with ASC 805-30-25-5, which is net of an earnout payment, which was accelerated into 2016 of $23.8 million. Key assumptions include a risk-free discount rate of 4.98%, a probability-adjusted revenue level, and probability-adjusted EBIT. Probability-adjusted revenue and EBIT are significant inputs that are not observable in the market, which ASC 820-10-35, refers to as Level 3 inputs. This contingent liability is reflected in the Consolidated Balance Sheet as of December 31, 2016, as a current and noncurrent liability of $7.1 and $15.7 million, respectively.

Productivity Software Operating Segment

We acquired privately-held CTI and Shuttleworth, which have been included in our Productivity Software operating segment, for aggregate cash consideration of $9.3 million, net of cash acquired, the issuance of 0.2 million shares of EFI common stock valued at $9.7 million, plus a potential future cash earnout, which is contingent on achieving certain performance targets.

CTI, a California limited liability company headquartered in San Diego, California, was acquired on October 6, 2015 and provides manufacturing execution software for the corrugated packaging industry, including business and management capabilities, with a customer base including sheet feeders, sheet plants, and full corrugated box plants.

Shuttleworth, a private limited liability company incorporated in England and Wales and headquartered in Kettering, U.K., was acquired on November 4, 2015, and provides business process automation solutions to the signage and packaging digital print industries. Support and operations of Shuttleworth were included in the Productivity Software operating segment, which provides Pace, Monarch, and Radius products to the Shuttleworth customer base, while continuing to support existing Shuttleworth customers.

The fair value of the CTI and Shuttleworth earnouts are estimated to be $6.8 million at December 31, 2016, by applying the income approach in accordance with ASC 805-30-25-5. Key assumptions include risk-free discount rates of 0.6% to 1.3% and probability-adjusted revenue levels. Probability-adjusted revenue is a significant input that is not observable in the market, which ASC 820-10-35, refers to as a Level 3 input. This contingent liability is reflected in the Consolidated Balance Sheet as of December 31, 2016, as a current and noncurrent liability of $2.4 and $4.4 million, respectively.

2014 Acquisitions

Productivity Software Operating Segment

We acquired privately-held SmartLinc, Rhapso, DirectSmile, and DIMS, which have been included in our Productivity Software operating segment, for aggregate cash consideration of $20.4 million, net of cash acquired, plus additional potential future cash earnouts, which were contingent on achieving certain performance targets. Earnout payments related to the 2014 acquisitions were $4.0 and $0.3 million at December 31, 2016 and 2015, respectively.

SmartLinc, a Wisconsin corporation headquartered in Milwaukee, Wisconsin, was acquired on January 16, 2014, and provides business process automation software for shipping and logistics operations.

Rhapso, a *societe anonyme* organized under French law headquartered in Les Ulis, France, was acquired on April 14, 2014, and provides printing, packaging, and scheduling software to European customers in the corrugated packaging market sector.

DirectSmile, a limited liability company under German law headquartered in Berlin, Germany, was acquired on July 18, 2014, and provides software solutions for variable data printing, cross media marketing automation, and image personalization technologies.

DIMS, a limited liability company under Dutch law headquartered in Lichtenvoorde, Netherlands, was acquired on September 15, 2014, and is a leading supplier of business process automation software for high end, multilingual, and multi-national print and packaging companies with a large portion of its installed base in Europe.

Valuation Methodologies

Intangible assets acquired in 2016, 2015, and 2014 consist of customer relationships, trade names, existing technology, backlog, and IPR&D. Each intangible asset valuation methodology for each acquisition assumes discount rates between 16% and 30%.

Customer Relationships and Backlog were valued using the excess earnings method, which is an income approach. The value of customer relationships lies in the generation of a consistent and predictable revenue source and the avoidance of costs associated with developing the relationships. Customer relationships were valued by estimating the revenue attributable to existing customer relationships and probability-weighting each forecast year to reflect the uncertainty of maintaining existing relationships based on historical attrition rates.

Backlog represents unfulfilled customer purchase orders at the acquisition date that will provide a relatively secure revenue stream, subject only to potential customer cancellation.

Trade Names were valued using the relief from royalty method, which is an income approach, with royalty rates based on various factors including an analysis of market data, comparable trade name agreements, and consideration of historical advertising dollars spent supporting the trade name.

Existing Technology was valued using the relief from royalty method based on royalty rates for similar technologies. The value of existing technology is derived from consistent and predictable revenue, including the opportunity to cross-sell to existing customers and the avoidance of the costs associated with developing the technology. Revenue related to existing technology was adjusted in each forecast year to reflect the evolution of the technology and the cost of sustaining research and development required to maintain the technology.

Rialco existing technology was valued using the cost approach. The value of existing technology is estimated based on the historical time and cost to develop the technology, the estimated man-years required to recreate the technology, historical employee compensation and benefits, and a reasonable mark-up based on profit for companies with similar operations.

IPR&D was valued using the relief from royalty method by estimating the cost to develop purchased IPR&D into commercially viable products, estimating the net cash flows resulting from the sale of those products, and discounting the net cash flows back to their present value. Project schedules were based on management's estimate of tasks completed and tasks to be completed to achieve technical and commercial feasibility.

	Matan	Reggiani	CTI	Shuttleworth	DIMS
Discount rate for IPR&D	16%	21%	18%	20%	20%
IPR&D percent complete at acquisition date	33%	70%	75%	17%	76%
IPR&D percent complete at December 31, 2016	88%	100%	95%	100%	93%
Acquisition-date valuation (in thousands)	$3,190	$10,879	$150	$555	$389

IPR&D is subject to amortization after product completion over the product life or otherwise assessed for impairment in accordance with acquisition accounting guidance. Additional costs incurred to complete IPR&D after the acquisition are expensed.

The allocation of the purchase price to the assets acquired and liabilities assumed (in thousands) with respect to each of these acquisitions at their respective acquisition dates is summarized as follows:

	2016 Acquisitions				2015 Acquisitions						2014 Acquisitions	
	Industrial Inkjet		Productivity Software		Industrial Inkjet				Productivity Software		Productivity Software	
	Rialco		Optitex		Matan		Reggiani		CTI and Shuttleworth		SmartLinc, Rhapso, DirectSmile, DIMS	
	Weighted average useful life	Purchase Price Allocation	Weighted average useful life	Purchase Price Allocation	Weighted average useful life	Purchase Price Allocation	Weighted average useful life	Purchase Price Allocation	Weighted average useful life	Purchase Price Allocation	Weighted average useful life	Purchase Price Allocation
Customer relationships	6 years	$ 2,512	3-4 years	$ 8,890	6 years	$ 6,630	4 years	$ 12,187	3-4 years	$ 5,001	5 years	$ 8,569
Existing technology	5 years	846	5 years	7,760	5 years	8,790	4 years	33,118	5 years	5,634	4 years	4,890
Trade names	5 years	763	4 years	2,020	5 years	2,570	5 years	11,964	4 years	1,357	4 years	1,231
IPR&D	—	—	—	—	—	3,190	—	10,879	—	705	—	389
Backlog	< one year	56	< one year	370	< one year	70	< one year	704	< one year	132	—	—
Goodwill		1,426		28,147		26,609		61,341		17,790		21,078
		5,603		47,187		47,859		130,193		30,619		36,157
Net tangible assets (liabilities)		5,177		(11,924)		(4,945)		(32,571)		(3,611)		(3,758)
Total purchase price		$10,780		$ 35,263		$42,914		$ 97,622		$27,008		$32,399

The initial preliminary purchase price allocations were adjusted by $0.8, $3.8, and $0.2 million during 2016, 2015, and 2014, respectively, primarily related to certain current assets and deferred tax liabilities. Pro forma results of operations for Optitex and Rialco have not been presented because their pre-acquisition revenue and net income are not material to our Consolidated Results of Operations for the year ended December 31, 2016.

Goodwill, which represents the excess of the purchase price over the net tangible and intangible assets acquired is not deductible for tax purposes with the exception of Optitex and Matan. Goodwill that was generated by our acquisitions of Optitex and Matan is deductible for U.S. tax purposes, but is not deductible for tax purposes in Israel. Pre-acquisition goodwill acquired in the Rhapso acquisition is deductible in Germany.

Rialco generates revenue and incurs operating expenses primarily in British pounds sterling. Upon consideration of the salient economic indicators discussed in ASC 830-10-55-5, we consider the British pounds sterling to be the functional currency for Rialco.

Optitex generates revenue and incurs operating expenses primarily in local currencies. Upon consideration of the salient economic indicators, we consider the local currency in each of Optitex's primary locations (shekel, rupee, Euro, and U.S. dollar) to be the functional currencies for Optitex.

Note 4: Balance Sheet Components

Inventories

Inventories, net of allowances, as of December 31, 2016 and 2015 are as follows (in thousands):

	2016	2015
Raw materials	$45,798	$ 53,783
Work in process	7,362	6,646
Finished goods	45,915	45,949
	$99,075	$106,378

Property and Equipment, Net

Property and equipment, net, as of December 31, 2016 and 2015 are as follows (in thousands):

	2016	2015
Land, buildings, and improvements (including build-to-suit lease)	$ 67,841	$ 72,373
Equipment and purchased software	86,495	69,748
Furniture and leasehold improvements	18,713	17,449
	173,049	159,570
Less accumulated depreciation and amortization	(69,745)	(61,791)
	$103,304	$ 97,779

We lease approximately 59,000 square feet in Fremont, California, under a 15-year lease agreement. The leased facility was a cold shell requiring additional build-out and tenant improvements. As explained in Note 8—Commitments and Contingencies of the Notes to Consolidated Financial Statements, we are deemed to be the accounting owner of the facility. The capitalized cost under the build-to-suit lease was $10.3 and $10.6 million as of December 31, 2016 and 2015, respectively, based on the estimated replacement cost, including capitalized interest, which has been reduced by accumulated depreciation.

Accrued and Other Liabilities

Accrued and other liabilities as of December 31, 2016 and 2015 are as follows (in thousands):

	2016	2015
Accrued compensation and benefits	$30,609	$31,104
Warranty provision—current	10,054	9,635
Accrued royalty payments	4,994	5,305
Contingent consideration—current	19,244	4,545
Short-term financing obligations	98	4,469
Deferred rent	2,938	3,367
Restructuring and other	1,824	3,019
Sales tax liabilities	1,997	655
Other accrued liabilities	13,747	12,326
	$85,505	$74,425

Accumulated Other Comprehensive Income (Loss) ("OCI")

OCI classified within stockholders' equity in our Consolidated Balance Sheets as of December 31, 2016 and 2015 are as follows (in thousands):

	2016	2015
Net unrealized investment losses	$ (473)	$ (376)
Currency translation losses	(24,230)	(17,049)
Net unrealized gains on cash flow hedges	9	1
	$(24,694)	$(17,424)

There were no amounts reclassified out of OCI for the year ended December 31, 2016, and less than $0.1 million, net of tax, for the years ended December 31, 2015 and 2014, consisting of unrealized gains and losses from investments in debt securities reported within interest income and other income (expense), net, in our Consolidated Statements of Operations.

Note 5: Goodwill and Long-Lived Intangible Assets

Purchased Intangible Assets

Our purchased identified intangible assets resulting from acquisitions that closed during the years ended December 31, 2016 and 2015 are as follows (in thousands, except for weighted average useful life):

		December 31, 2016				December 31, 2015		
	Weighted average useful life (years)	Gross carrying amount	Accumulated amortization	Weighted remaining average useful life (years)	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
Goodwill	—	$359,841	$ —	—	$359,841	$338,793	$ —	$338,793
Customer relationships and other	5.1	$ 88,557	$ (49,527)	2.8	$ 39,030	$ 75,145	$ (36,625)	$ 38,520
Existing technology	4.0	173,543	(122,654)	2.7	50,889	161,441	(114,018)	47,423
Trademarks and trade names	11.1	67,701	(38,300)	6.3	29,401	65,395	(30,949)	34,446
IPR&D	—	3,677	—	—	3,677	15,163	—	15,163
Amortizable intangible assets	5.7	$333,478	$(210,481)	3.8	$122,997	$317,144	$(181,592)	$135,552

Form 10-K

Acquired customer relationships and other, existing technology, and trademarks and trade names are amortized over their estimated useful lives of two to sixteen years using the straight-line method, which approximates the pattern in which the economic benefits of the identified intangible assets are realized. The useful life of certain developed technology was reduced during 2016 based on a re-assessment of the useful life of the technology with a $1.6 million impact on amortization expense. No changes have been made to the useful lives of amortizable identifiable intangible assets in 2015 or 2014. Aggregate amortization expense was $39.6, $26.5, and $20.7 million for the years ended December 31, 2016, 2015, and 2014, respectively.

IPR&D is subject to amortization after product completion over the product life or otherwise assessed for impairment in accordance with acquisition accounting guidance.

As of December 31, 2016, future estimated amortization expense for each of the next five years and thereafter related to the amortization of identified intangible assets is as follows (in thousands):

For the years ended December 31,	Future amortization expense
2017	$ 39,613
2018	35,264
2019	26,780
2020	10,256
2021	3,991
Thereafter	7,093
	$122,997

Goodwill Rollforward

The goodwill rollforward for the years ended December 31, 2016 and 2015 as required by ASC 805 is as follows (in thousands):

	Industrial Inkjet	Productivity Software	Fiery	Total
Ending Balance, December 31, 2014	$ 59,124	$121,486	$64,833	$245,443
Additions (Reggiani, Matan, CTI, and Shuttleworth acquisitions)	$ 91,776	$ 17,790	$ —	$109,566
Opening balance sheet adjustment	(3,826)	(13)	—	(3,839)
Foreign currency adjustments	(4,891)	(6,135)	(1,351)	(12,377)
Ending Balance, December 31, 2015	$142,183	$133,128	$63,482	$338,793
Additions (Rialco and Optitex acquisitions)	$ 1,426	$ 28,147	$ —	$ 29,573
Opening balance sheet adjustment	(171)	(663)	—	(834)
Foreign currency adjustments	(2,370)	(5,137)	(184)	(7,691)
Ending Balance, December 31, 2016	$141,068	$155,475	$63,298	$359,841
Accumulated Impairment as of December 31, 2016, recognized in 2008	$103,991	$ —	$ —	$103,991

Goodwill Assessment

ASU 2011-08, Intangibles—Goodwill and Other (ASC 350): Testing Goodwill for Impairment, provides that a simplified analysis of goodwill impairment may be performed consisting of a qualitative assessment to determine whether further impairment testing is necessary. Due to the significant additions to goodwill resulting from the business combinations completed during 2016 and 2015 and because our reporting units are susceptible to fair value fluctuations, we determined that the quantitative analysis should be performed.

A two-step impairment test of goodwill is required by ASC 350-20-35. In the first step, the fair value of each reporting unit is compared to its carrying value. If the fair value exceeds carrying value, goodwill is not impaired and further testing is not required. If the carrying value exceeds fair value, then the second step of the impairment test is required to determine the implied fair value of the reporting unit's goodwill. The implied fair value of goodwill is calculated by deducting the fair value of all tangible and intangible net assets of the reporting unit, excluding goodwill, from the fair value of the reporting unit as determined in the first step. If the carrying value of the reporting unit's goodwill exceeds its implied fair value, then an impairment loss must be recorded equal to the difference.

Our goodwill valuation analysis is based on our respective reporting units (Industrial Inkjet, Productivity Software, and Fiery), which are consistent with our operating segments identified in Note 14—Segment Information, Geographic Regions, and Major Customers of the Notes to Consolidated Financial Statements. We determined the fair value of our reporting units as of December 31, 2016 by equally weighting the market and income approaches. Under the market approach, we estimated fair value based on market multiples of revenue or earnings of comparable companies. Under the income approach, we estimated fair value based on a projected cash flow method using a discount rate determined by our management to be commensurate with the risk inherent in our current business model. Based on our valuation results, we have determined that the fair values of our Industrial Inkjet, Productivity Software, and Fiery reporting units exceed their carrying values by $575, $444, and $515 million, respectively, or 151%, 267%, and 533%, respectively.

To identify suitable comparable companies under the market approach, consideration was given to the financial condition and operating performance of the reporting unit being evaluated relative to companies operating in the same or similar businesses, potentially subject to corresponding economic, environmental, and political factors and considered to be reasonable investment alternatives. Consideration was given to the investment characteristics of the subject companies relative to those of similar publicly traded companies (i.e., guideline companies), which are actively traded. In applying the Public Company Market Multiple Method, valuation multiples were derived from historical and projected operating data of guideline companies and applied to the appropriate operating data of our reporting units to arrive at an indication of fair value. Five suitable guideline companies were identified for the Industrial Inkjet, reporting unit. Six suitable guideline companies were identified for the Productivity Software and Fiery reporting units, respectively.

As part of this process, we engaged a third party valuation firm to assist management in its analysis. All estimates, key assumptions, and forecasts were either provided by or reviewed by us. While we chose to utilize a third party valuation firm, the impairment analysis and related valuations represent the conclusions of management and not the conclusions or statements of any third party.

Solely for purposes of establishing inputs for the income approach to assess the fair value of the Industrial Inkjet, Productivity Software, and Fiery reporting units, we made the following assumptions:

- Industrial Inkjet revenue growth of 26% in 2016 exceeded historical normalized growth rates for the Industrial Inkjet operating segment due to the Reggiani, Matan, and Rialco acquisitions.

- Productivity Software revenue growth of 12% in 2016 approximated historical normalized growth rates for the Productivity Software operating segment.
- Fiery revenue declined by 7% in 2016 primarily due to weak APAC demand, especially in China, reduced end user demand associated with the Drupa trade show in June 2016, which occurs every four years, caused by end users delaying purchasing decisions until new printer models are available, and decreased sales to one significant printer manufacturer purchasing less inventory. Fiery revenue growth of 2% to 3% is assumed in the forecast horizon as printer distributor / manufacturer inventories and end user demand return to normal levels and APAC demand recovers.
- Despite ongoing economic uncertainty, our reporting units' revenue is assumed to grow at historical normalized rates between 2017 and 2022 for the following primary reasons:
  - Our Industrial Inkjet revenue is positioned to outpace the slow economy due to the ongoing transition from solvent-based to UV curable-based printing and from UV curing to UV/LED curing. This transition is expected to continue through the forecast horizon.
  - Our acquisitions of Rialco in 2016 and Reggiani and Matan in 2015 will enable us to continue to achieve historical normalized Industrial Inkjet revenue growth rates through the forecast horizon.
  - Our acquisitions of Optitex in 2016 and CTI and Shuttleworth in 2015 will enable us to continue to achieve historical normalized Productivity Software revenue growth rates through the forecast horizon.
  - Our acquisition strategy in the Productivity Software reporting unit will enable us to achieve historical normalized revenue growth rates through the forecast horizon. Our intention is to continue to explore additional acquisition opportunities in this operating segment to further consolidate the business process automation and cloud-based order entry and order management software industries.
  - Long-term industry growth after 2022.
  - Gross profit percentages will approximate historical average levels in the Industrial Inkjet, Productivity Software and Fiery reporting units.

Our discounted cash flow projections are six-year financial forecasts, which were based on annual financial forecasts developed internally by management for use in managing our business and through discussions with the valuation firm engaged by us. The significant assumptions utilized in these conservative six-year financial forecasts included consolidated annual revenue growth rates ranging from 6% to 10% which equates to a consolidated compound annual growth rate of 8%. The upper end of the range exceeds our historical normalized growth rates due to the addition of the Reggiani textile and Optitex software businesses to our portfolio. Future cash flows were discounted to present value using a mid-year convention and a consolidated discount rate of 10%. Terminal values were calculated using the Gordon growth methodology with a consolidated long-term growth rate of 4%, except for Fiery at 2.5%. The sum of the fair values of the Industrial Inkjet, Productivity Software, and Fiery reporting units was reconciled to our current market capitalization (based on our stock price) plus an estimated control premium. Percentages of revenue over the six-year forecast horizon were compared to approximate percentages realized by the guideline companies. To assess the reasonableness of the estimated control premium of 13.2%, we examined the most similar transactions in relevant industries and determined the average premium indicated by the transactions deemed to be most similar to a hypothetical transaction involving our reporting units. We examined the weighted average and median control premiums offered in relevant industries, industry specific control premiums, and specific transaction control premiums to conclude that our estimated control premium is reasonable.

We assess the impairment of identifiable intangibles and long-lived assets whenever events or changes in circumstances indicate the carrying value may not be recoverable or the life of the asset may need to be revised. Factors considered important that could trigger an impairment review include:

- significant negative industry or economic trends,
- significant decline in our stock price for a sustained period,
- our market capitalization relative to net book value,
- significant changes in the manner of our use of the acquired assets,
- significant changes in the strategy for our overall business, and
- our assessment of growth and profitability in each reporting unit over the coming years.

Given the uncertainty of the economic environment and the potential impact on our business, there can be no assurance that our estimates and assumptions regarding the duration of the ongoing economic downturn, or the period or strength of recovery, made for purposes of our goodwill impairment testing at December 31, 2016 will prove to be accurate predictions of the future. If our assumptions regarding forecasted revenue or gross profit rates are not achieved, we may be required to record additional goodwill impairment charges in future periods relating to any of our reporting units, whether in connection with the next annual impairment testing in the fourth quarter of 2017 or prior to that, if any such change constitutes an interim triggering event. It is not possible to determine if any such future impairment charge would result or, if it does, whether such charge would be material.

Long-Lived Assets

We evaluate potential impairment with respect to long-lived assets whenever events or changes in circumstances indicate their carrying amount may not be recoverable. No asset impairment charges were recognized during the years ended December 31, 2016, 2015, or 2014.

Note 6: Investments and Fair Value Measurements

We invest our excess cash on deposit with major banks in money market, U.S. Treasury and government-sponsored entity, corporate, municipal government, asset-backed, and mortgage-backed residential securities. By policy, we invest primarily in high-grade marketable securities. We are exposed to credit risk in the event of default by the financial institutions or issuers of these investments to the extent of amounts recorded in our Consolidated Balance Sheets.

We consider all highly liquid investments with an original maturity of three months or less at the time of purchase to be cash equivalents. Typically, the cost of these investments has approximated fair value. Marketable investments with a maturity greater than three months are classified as available-for-sale short-term investments. Available-for-sale securities are stated at fair value with unrealized gains and losses reported as a separate component of OCI, adjusted for deferred income taxes. The credit portion of any other-than-temporary impairment is included in net income. Realized gains and losses on sales of financial instruments are recognized upon sale of the investments using the specific identification method.

Our available-for-sale short-term investments as of December 31, 2016 and 2015 are as follows (in thousands):

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
December 31, 2016				
U.S. Government and sponsored entities	$ 70,893	$ 49	$(348)	$ 70,594
Corporate debt securities	198,166	102	(621)	197,647
Municipal government	1,278	—	(1)	1,277
Asset-backed securities	24,233	79	(17)	24,295
Mortgage-backed securities—residential	1,615	3	(3)	1,615
Total short-term investments	$296,185	$233	$(990)	$295,428
December 31, 2015				
U.S. Government and sponsored entities	$ 98,411	$ 12	$(137)	$ 98,286
Corporate debt securities	198,498	20	(510)	198,008
Asset-backed securities	35,276	195	(174)	35,297
Mortgage-backed securities—residential	1,689	2	(6)	1,685
Total short-term investments	$333,874	$229	$(827)	$333,276

The fair value and duration that investments, including cash equivalents, have been in a gross unrealized loss position as of December 31, 2016 and 2015 are as follows (in thousands):

	Less than 12 Months		More than 12 Months		TOTAL	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2016						
U.S. Government and sponsored entities	$ 39,810	$(348)	$ —	$ —	$ 39,810	$(348)
Corporate debt securities	133,382	(581)	13,158	(40)	146,540	(621)
Municipal government	1,268	(1)	—	—	1,268	(1)
Asset-backed securities	4,540	(7)	4,611	(10)	9,151	(17)
Mortgage-backed securities—residential	428	(1)	153	(2)	581	(3)
Total	$179,428	$(938)	$17,922	$ (52)	$197,350	$(990)
December 31, 2015						
U.S. Government and sponsored entities	$ 82,366	$(137)	$ —	$ —	$ 82,366	$(137)
Corporate debt securities	136,274	(448)	16,940	(62)	153,214	(510)
Asset-backed securities	27,928	(103)	7,131	(71)	35,059	(174)
Mortgage-backed securities—residential	764	(2)	269	(4)	1,033	(6)
Total	$247,332	$(690)	$24,340	$(137)	$271,672	$(827)

For fixed income securities that have unrealized losses as of December 31, 2016, we have determined that we do not have the intent to sell any of these investments and it is not more likely than not that we will be required to sell any of these investments before recovery of the entire amortized cost basis. We have evaluated these fixed income securities and determined that no credit losses exist. Accordingly, management has determined that the unrealized losses on our fixed income securities as of December 31, 2016 were temporary in nature.

Amortized cost and estimated fair value of investments at December 31, 2016 are summarized by maturity date as follows (in thousands):

	Amortized cost	Fair value
Mature in less than one year	$107,033	$106,918
Mature in one to three years	189,152	188,510
Total short-term investments	$296,185	$295,428

For the year ended December 31, 2016, net realized gains of $0.4 million were recognized, which were comprised of $0.4 million in realized gains from sale of investments, partially offset by less than $0.1 million in realized losses. For the year ended December 31, 2015, net realized gains of $0.1 million were recognized, which were comprised of $0.2 million in realized gains from sale of investments, partially offset by $0.1 million in realized losses. For the year ended December 31, 2014, net realized gains of less than $0.1 million were recognized. As of December 31, 2016 and 2015, net unrealized losses of $0.8 and $0.6 million, respectively, were included in OCI in the accompanying Consolidated Balance Sheets.

Fair Value Measurements

ASC 820 identifies fair value as the exchange price, or exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As a basis for considering market participant assumptions in fair value measurements, ASC 820 establishes a three-tier fair value hierarchy as follows:

Level 1: Inputs that are quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date;

Level 2: Inputs that are other than quoted prices included within Level 1, that are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date for the duration of the instrument's anticipated life or by comparison to similar instruments; and

Level 3: Inputs that are unobservable or that reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. These include management's own judgments about market participant assumptions developed based on the best information available in the circumstances.

We utilize the market approach to measure the fair value of our fixed income securities. The market approach is a valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. The fair value of our fixed income securities is obtained using readily-available market prices from a variety of industry standard data providers, large financial institutions, and other third-party sources for the identical underlying securities. The fair value of our investments in certain money market funds is expected to maintain a Net Asset Value of $1 per share and, as such, is priced at the expected market price.

We obtain the fair value of our Level 2 financial instruments from several third party asset managers, custodian banks, and the accounting service providers. Independently, these service providers use professional pricing services to gather pricing data, which may include quoted market prices for identical or comparable instruments or inputs other than quoted prices that are observable either directly or indirectly. As part of this process, we engaged a pricing service to assist management in its pricing analysis and assessment of other-than-temporary impairment. All estimates, key assumptions, and forecasts were either provided by or reviewed by us. While we chose to utilize a third party pricing service, the impairment analysis and related valuations represent conclusions of management and not conclusions or statements of any third party.

Our investments and liabilities measured at fair value have been presented in accordance with the fair value hierarchy specified in ASC 820 as of December 31, 2016 and 2015 in order of liquidity as follows (in thousands):

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
December 31, 2016				
Assets:				
Money market funds	$ 23,575	$23,575	$ —	$ —
U.S. Government and sponsored entities	70,594	51,870	18,724	—
Corporate debt securities	197,647	—	197,647	—
Municipal government	1,277	—	1,277	—
Asset-backed securities	24,295	—	24,228	67
Mortgage-backed securities—residential	1,615	—	1,615	—
	$319,003	$75,445	$243,491	$ 67
Liabilities:				
Contingent consideration, current and noncurrent	$ 56,463	$ —	$ —	$56,463
Self-insurance	1,542	—	—	1,542
	$ 58,005	$ —	$ —	$58,005
December 31, 2015				
Assets:				
Money market funds	$ 13,221	$13,221	$ —	$ —
U.S. Government and sponsored entities	98,286	34,712	63,574	—
Corporate debt securities	198,778	—	198,778	—
Asset-backed securities	35,297	—	35,113	184
Mortgage-backed securities—residential	1,684	—	1,684	—
	$347,266	$47,933	$299,149	$ 184
Liabilities:				
Contingent consideration, current and noncurrent	$ 54,796	$ —	$ —	$54,796
Self-insurance	1,268	—	—	1,268
	$ 56,064	$ —	$ —	$56,064

Money market funds consist of $23.6 and $13.2 million, which have been classified as cash equivalents as of December 31, 2016 and 2015, respectively. Corporate debt securities include $0.7 million, which have been classified as cash equivalents at December 31, 2015.

Investments are generally classified within Level 1 or Level 2 of the fair value hierarchy because they are valued using quoted market prices or alternative pricing sources with reasonable levels of price transparency. Investments in U.S. Treasury obligations and overnight money market mutual funds have been classified as Level 1 because these securities are valued based on quoted prices in active markets or are actively traded at $1.00 Net Asset Value. There have been no transfers between Level 1 and 2 during the years ended December 31, 2016 and 2015.

Government agency investments and corporate debt instruments, including investments in asset-backed and mortgage-backed securities, have generally been classified as Level 2 because markets for these securities are less active or valuations for such securities utilize significant inputs, which are directly or indirectly observable. We hold asset-backed securities with income payments derived from and collateralized by a specified pool of underlying assets. Asset-backed securities in the portfolio are predominantly collateralized by credit cards and auto loans. We also hold two asset-backed securities collateralized by mortgage loans, which have been fully reserved.

Liabilities for Contingent Consideration

Acquisition-related liabilities for contingent consideration (i.e., earnouts) are related to the purchase business combinations of Optitex and Rialco in 2016; Shuttleworth, CTI, and Reggiani in 2015; DIMS, DirectSmile, and SmartLinc in 2014; Metrix, GamSys, and PrintLeader Software ("PrintLeader") in 2013; and Technique in 2012.

The fair value of these earnouts is estimated to be $56.5 and $54.8 million as of December 31, 2016 and 2015, respectively, by applying the income approach in accordance with ASC 805-30-25-5. Key assumptions include risk-free discount rates between 0.6% and 4.98% (Monte Carlo valuation method) and discount rates between 4.2% and 6.0% (probability-adjusted method), as well as probability-adjusted revenue and EBIT levels. Probability-adjusted revenue, gross margin, and EBIT are significant inputs that are not observable in the market, which ASC 820-10-35 refers to as Level 3 inputs. These contingent liabilities have been reflected in the Consolidated Balance Sheet as of December 31, 2016 as current and noncurrent liabilities of $19.3 and $37.2 million, respectively.

The fair value of contingent consideration increased by $6.8 million, including $2.7 million of earnout interest accretion during the year ended December 31, 2016 related to all acquisitions. The Rialco, Optitex, Reggiani, DirectSmile, and CTI earnout performance probabilities increased while the DIMS and Shuttleworth earnout performance probabilities decreased or were not achieved in 2016. The fair value of contingent consideration decreased by $2.1 million, net of $1.4 million of earnout interest accretion during the year ended December 31, 2016 related to all acquisitions. The DIMS, DirectSmile, GamSys, and Metrix, earnout performance probability percentages were reduced or not achieved in 2015. In accordance with ASC 805-30-35-1, changes in the fair value of contingent consideration subsequent to the acquisition date have been recognized in general and administrative expense.

Earnout payments during the year ended December 31, 2016 of $23.8, $3.6, $0.4, and $0.2 million are primarily related to the previously accrued Reggiani, DirectSmile, SmartLinc, and Metrix contingent consideration liabilities, respectively. Earnout payments during the year ended December 31, 2015 of $2.0, $1.1, $0.6, and $0.3 million are primarily related to the previously accrued Technique, GamSys, Metrix, and SmartLinc contingent consideration liabilities, respectively.

Changes in the contingent liability for contingent consideration during the years ended December 31, 2016 and 2015 are summarized as follows:

Fair value of contingent consideration at December 31, 2014	$ 12,277
Fair value of Reggiani contingent consideration at July 1, 2015	43,170
Fair value of CTI contingent consideration at October 6, 2015	2,551
Fair value of Shuttleworth contingent consideration at November 4, 2015	5,077
Changes in valuation	(2,135)
Payments	(4,093)
Foreign currency adjustment	(2,051)
Fair value of contingent consideration at December 31, 2015	$ 54,796
Fair value of Rialco contingent consideration at March 1, 2016	2,109
Fair value of Optitex contingent consideration at June 16, 2016	22,300
Changes in valuation	6,813
Payments	(28,111)
Foreign currency adjustment	(1,444)
Fair value of contingent consideration at December 31, 2016	$ 56,463

A narrative description of the sensitivity of recurring fair value measurements to changes in unobservable inputs is required if a change in those inputs might result in a significantly higher or lower fair value measurement. Since the most significant inputs to the fair value measurement of the contingent consideration liability are the probability-adjusted revenue and discount rate, we reviewed the sensitivity of the fair value measurement to changes in these inputs. We assessed the probability of achieving the revenue performance targets for the contingent consideration associated with each acquisition at percentage levels between 50% and 100% as of each respective acquisition date based on an assessment of the historical performance of each acquired entity, our current expectations of future performance, and other relevant factors. A change in probability-adjusted revenue of five percentage points from the level assumed in the current valuations would result in an increase in the fair value of contingent consideration of $1.2 million or a decrease of $3.6 million resulting in a corresponding adjustment to general and administrative expense. A change in the discount rate of one percentage point results in an increase in the fair value of contingent consideration of $0.5 million or a decrease of $0.8 million. The potential undiscounted amount of future contingent consideration cash payments that we could be required to make related to our business acquisitions, beyond amounts currently accrued, is $14.6 million as of December 31, 2016.

Fair Value of Derivative Instruments

We utilize the income approach to measure the fair value of our derivative assets and liabilities. The income approach uses pricing models that rely on market observable inputs such as yield curves, currency exchange rates, and forward prices, and are therefore classified as Level 2 measurements. The notional amount of our derivative assets and liabilities was $161.8 and $118.6 million as of December 31, 2016 and 2015, respectively. The fair value of our derivative assets and liabilities that were designated for cash flow hedge accounting treatment having notional amounts of $3.2 million as of December 31, 2016 and 2015, respectively, was not material.

Fair Value of Convertible Senior Notes

In September 2014, we issued $345 million aggregate principal amount of 0.75% Convertible Senior Notes due 2019 (“Notes”). The Notes are carried at their original issuance value, net of unamortized debt discount, and are not marked to market each period. The approximate fair value of the Notes as of December 31, 2016 was approximately $355 million and was considered a Level 2 fair value measurement. Fair value was estimated based upon actual quotations obtained at the end of the reporting period or the most recent date available. A substantial portion of the market value of our Notes in excess of the outstanding principal amount relates to the conversion premium.

Note 7: Convertible Senior Notes, Note Hedges, and Warrants

0.75% Convertible Senior Notes Due 2019

In September 2014, we completed a private placement of $345 million principal amount of 0.75% Convertible Senior Notes due 2019 ("Notes"). The Notes were sold to the initial purchasers for resale to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended. The net proceeds from this offering were approximately $336.3 million, after deducting the initial purchasers' commissions and the offering expenses paid by us. We used approximately $29.4 million of the net proceeds to purchase the Note Hedges described below, net of the proceeds from the Warrant transactions also described below.

The Notes are senior unsecured obligations of EFI with interest payable semiannually in arrears on March 1 and September 1 of each year, commencing March 1, 2015. The Notes are not callable and will mature on September 1, 2019, unless previously purchased or converted in accordance with their terms prior to such date. Holders of the Notes who convert in connection with a "fundamental change," as defined in the indenture governing the Notes ("Indenture"), may require us to purchase for cash all or any portion of their Notes at a purchase price equal to 100 percent of the principal amount of the Notes to be repurchased, plus accrued and unpaid interest, if any.

The initial conversion rate is 18.9667 shares of common stock per $1,000 principal amount of Notes, which is equivalent to an initial conversion price of approximately $52.72 per share of common stock. Upon conversion of the Notes, holders will receive cash, shares of common stock or a combination thereof, at our election. Our intent is to settle the principal amount of the Notes in cash upon conversion. If the conversion value exceeds the principal amount, we would deliver shares of our common stock for our conversion obligation in excess of the aggregate principal amount. As of December 31, 2016, none of the conditions allowing holders of the Notes to convert had been met.

Throughout the term of the Notes, the conversion rate may be adjusted upon the occurrence of certain events. Holders of the Notes will not receive any cash payment representing accrued and unpaid interest upon conversion of a Note. Holders may convert their Notes only under the following circumstances:

- during any calendar quarter commencing after the calendar quarter ending on December 31, 2014 (and only during such calendar quarter), if the last reported sale price of our common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day;
- during the five business day period after any five consecutive trading day period ("Notes Measurement Period") in which the "trading price" (as the term is defined in the Indenture) per $1,000 principal amount of notes for each trading day of such Notes Measurement Period was less than 98% of the product of the last reported stock price on such trading day and the conversion rate on each such trading day;
- upon the occurrence of specified corporate events; or

- at any time on or after March 1, 2019 until the close of business on the second scheduled trading day immediately preceding the maturity date.

We separated the Notes into liability and equity components. The carrying amount of the liability component was calculated by measuring the estimated fair value of a similar liability that does not have an associated convertible feature. The carrying amount of the equity component representing the conversion option was determined by deducting the fair value of the liability component from the face value of the Notes as a whole. The excess of the principal amount of the liability component over its carrying amount ("debt discount") is amortized to interest expense over the term of the Notes using the effective interest method with an effective interest rate of 4.98% per annum (5.46% inclusive of debt issuance costs). The equity component is not remeasured as long as it continues to meet the conditions for equity classification.

We allocated the total transaction costs incurred by the Notes issuance to the liability and equity components based on their relative values. Issuance costs of $7.0 million attributable to the $281.4 million liability component are being amortized to expense over the term of the Notes, and issuance costs of $1.6 million attributable to the $63.6 million equity component were offset against the equity component in stockholders' equity. Additionally, we recorded a deferred tax liability of $23.7 million on the debt discount, which is not deductible for tax purposes.

The Notes consist of the following at December 31, 2016 and 2015 (in thousands):

	2016	2015
Liability component	$345,000	$345,000
Debt discount, net of amortization	(36,115)	(48,515)
Debt issuance costs, net of amortization	(4,401)	(5,751)
Net carrying amount	$304,484	$290,734
Equity component	$ 63,643	$ 63,643
Less: debt issuance costs allocated to equity	(1,582)	(1,582)
Net carrying amount	$ 62,061	$ 62,061

Upon adoption of ASU 2015-03, $5.8 million of debt issuance costs have been reclassified from other current assets and other assets to a direct reduction of convertible senior notes, net, in our Consolidated Balance Sheet as of December 31, 2015.

Interest expense recognized related to the Notes during the years ended December 31, 2016, 2015, and 2014 was as follows (in thousands):

	2016	2015	2014
0.75% coupon	$ 2,588	$ 2,595	$ 798
Amortization of debt issuance costs	1,350	1,396	419
Amortization of debt discount	12,400	11,667	3,461
	$16,338	$15,658	$4,678

Note Hedges

We paid an aggregate of $63.9 million in convertible note hedge transactions with respect to our common stock ("Note Hedges") in September 2014. The Note Hedges will expire upon maturity of the Notes. The Note Hedges are intended to offset the potential dilution upon conversion and/or offset any cash payments we are required to make in excess of the principal amount upon conversion of the Notes in the event that the market value per share of our common stock, as measured under the terms of the Note Hedges, is greater than the strike price of the Note Hedges. The strike price of the Note Hedges initially correspond to the conversion price of the Notes and is subject to anti-dilution adjustments substantially similar to those applicable to the conversion price of the Notes. The Note Hedges are separate transactions and are not part of the Notes. Holders of the Notes will not have any rights with respect to the Note Hedges.

Warrants

Concurrently with entering into the Note Hedges, we separately entered into warrant transactions (“Warrants”), whereby we sold warrants to acquire shares of our common stock at a strike price of $68.86 per share. We received aggregate proceeds of $34.5 million from the sale of the Warrants. If the average market value per share of our common stock for the reporting period, as measured under the Warrants, exceeds the strike price of the Warrants, the Warrants will have a dilutive effect on our earnings per share. The Warrants are separate transactions and are not part of the Notes or the Note Hedges and are accounted for as a component of additional paid-in capital. Holders of the Notes and Note Hedges will not have any rights with respect to the Warrants.

Note 8: Commitments and Contingencies

Contingent Consideration

We are required to make payments to the former stockholders of acquired companies based on the achievement of specified performance targets as more fully explained in Note 6—Investments and Fair Value Measurements.

Purchase Commitments

We subcontract with other companies to manufacture our products. During the normal course of business, our subcontractors procure components based on orders placed by us. If we cancel all or part of our orders, we may still be liable to the subcontractors for the cost of the components they purchased to manufacture our products. We periodically review the potential liability compared to the adequacy of the related allowance.

Lease Commitments

As of December 31, 2016, we lease certain of our current facilities under noncancellable operating lease agreements. We are required to pay property taxes, insurance, and nominal maintenance costs for certain of these facilities and any increases over the base year of these expenses on the remainder of our facilities.

Future minimum lease payments under noncancellable operating leases, including our build-to-suit lease, and future minimum sublease receipts, for each of the next five years and thereafter as of December 31, 2016 are as follows (in thousands):

Fiscal Year	Future Minimum Lease Payments	Future Minimum Sublease Receipts
2017	$ 9,097	$370
2018	8,240	313
2019	7,848	166
2020	6,570	—
2021	5,355	—
Thereafter	33,894	—
Total	$71,004	$849

Rent expense was approximately $8.8, $8.0, and $6.1 million for the years ended December 31, 2016, 2015, and 2014, respectively.

Off-Balance Sheet Financing

On August 26, 2016, we entered into a lease agreement and have accounted for a lease term of 48.5 years, inclusive of two renewal options of 5.0 and 3.5 years, with the City of Manchester to lease 16.9 acres of land adjacent to the Manchester Regional Airport. The land is subleased to BTMU during the term of the lease related to the manufacturing facility that is being constructed on the site, which is described below. Minimum lease payments are $13.1 million during the 48.5 year term of the land lease, excluding four months of the land lease that is financed into the manufacturing facility lease.

On August 26, 2016, we entered into a six-year lease with BTMU whereby a 225,000 square foot manufacturing and warehouse facility is under construction related to our super-wide format industrial digital inkjet printer business in the Industrial Inkjet operating segment at a projected cost of $40 million and a construction period of 18 months. Minimum lease payments during the initial term are $1.8 million. Upon completion of the initial term, we have the option to renew the lease, purchase the facility, or return the facility to BTMU subject to an 89% residual value guarantee under which we would recognize additional rent expense in the form of a variable rent payment. We have assessed our exposure in relation to the residual value guarantee and believe that there is no deficiency to the guaranteed value with respect to funds expended by BTMU as of December 31, 2016. We are treated as the owner of the facility for federal income tax purposes.

The funds pledged under the lease represent 115% of the total expenditures made by BTMU through December 31, 2016. The funds are invested in $5.1 and $1.2 million of U.S. government securities and cash equivalents, respectively, with a third party trustee and will be restricted during the construction period. Upon completion of construction, the funds will be released as cash and cash equivalents. The portion of released funds that represents 100% of the total expenditures made by BTMU will be deposited with BTMU and restricted as collateral until the end of the underlying lease period.

The funds pledged as collateral are invested in U.S. government securities and cash equivalents as of December 31, 2016, and are classified as Level 1 in the fair value hierarchy as more fully defined in Note 6—Investments and Fair Value Measurements. Net unrealized losses of less than $0.1 million were included in OCI in the accompanying Consolidated Balance Sheet as of December 31, 2016.

We have applied the accounting and disclosure requirements set forth in ASC 810-10 for VIEs. We have evaluated the BTMU lease agreement to determine if the arrangement qualifies as a VIE under ASC 810-10. We have determined that the lease agreement does not qualify as a VIE and, as such, we are not required to consolidate the VIE in our consolidated financial statements.

Assets Held for Sale

Management has approved a plan to sell approximately 5.6 acres of land and the office building located at 1340 Corporate Center Curve, Eagan, Minnesota, consisting of 43,682 square feet. We intend to enter into a lease agreement with the purchaser of the facility whereby we will lease 22,000 square feet under a ten-year lease agreement at market rental rates. The gain on the sale of the facility and land will be deferred over the lease term.

Assets held for sale of $3.8 million have been reclassified to other current assets as of December 31, 2016 consisting of $2.9 million net book value of the facility and $0.9 million of related land. Management expects the sale and related lease-back to be completed in the next nine months.

Build-to-Suit Lease Arrangement

We entered into a 15-year lease agreement pursuant to which we leased approximately 59,000 square feet of a building located in Fremont, California. The lease commenced on September 1, 2013. Minimum lease payments are $18.5 million, net of full abatement of rent for the first three years of the lease term. During the initial lease term, we also have certain rights of first refusal to (i) lease the remaining portion of the facility and/or (ii) purchase the facility. This location contains the engineering, marketing, and administrative operations for our Fiery operating segment. We relocated our former corporate headquarters to the adjacent building, which we purchased during the fourth quarter of 2013.

The leased facility was a cold shell requiring additional build-out and tenant improvements. The landlord paid the costs of the build-out up to $4.5 million, including all structural improvements, and we paid the costs of tenant improvements beyond that amount. We paid $5.3 million of tenant improvements, including furniture and equipment and capitalized interest. The landlord is responsible for costs related to force majeure events that result in any damage to the facility. We were responsible for cost over-runs, if any, related to force majeure events including strikes, war, and material availability. Since we were responsible for cost overruns related to certain force majeure events, we were in substance offering an indemnification for events outside of our control. As such, we are deemed to be the accounting owner of the facility. As of December 31, 2016 and 2015, we have capitalized $10.3 and $10.6 million, respectively, in property and equipment based on the estimated replacement cost of the portion of the building that we occupy, including capitalized interest, reduced by accumulated depreciation.

Monthly lease payments are allocated between the land element of the lease, which is accounted for as an operating lease upon lease execution, and the imputed financing obligation. The imputed financing obligation is being amortized upon lease commencement in accordance with the effective interest method using the interest rate determined in accordance with the requirements of sale leaseback accounting. The imputed interest cost incurred during the construction period was capitalized as a component of the construction cost upon lease commencement. As of December 31, 2016, the imputed financing obligation in connection with the facility was $14.2 million, including accrued interest, which was classified as a noncurrent imputed financing obligation in our Consolidated Balance Sheet. If the requirements of sale leaseback accounting are satisfied, or at the end of the initial lease term, we will reverse the net book value of the building and the corresponding imputed financing obligation.

Guarantees and Product Warranties

Guarantees must be disclosed upon issuance and a liability recognized for the fair value of obligations we assume under such guarantees in accordance with ASC 460, Guarantees, which applies to both general guarantees and product warranties.

Our Industrial Inkjet printers are generally accompanied by a 12-month limited warranty, which covers both parts and labor. Our Fiery DFE products limited warranty is generally 12 to 15 months. In accordance with ASC 450-30, an accrual is established when the warranty liability is estimable and probable based on historical experience. A provision for the estimated warranty costs relating to products that have been sold is recorded in cost of revenue upon recognition of revenue and the resulting accrual is reviewed regularly and periodically adjusted to reflect changes in warranty estimates.

The changes in product warranty reserve for the years ended December 31, 2016 and 2015 were as follows (in thousands):

	2016	2015
Balance at January 1,	$ 9,635	$ 9,682
Liability assumed through business acquisitions	—	1,006
Provisions, net of releases	12,715	11,839
Settlements	(12,031)	(12,892)
Balance at December 31,	$ 10,319	$ 9,635

Indemnifications

In the normal course of business and in an effort to facilitate the sales of our products, we sometimes indemnify other parties, including customers, lessors, and parties to other transactions with us. When we indemnify these parties, typically those provisions protect other parties against losses arising from our infringement of third party intellectual property rights or other claims made by third parties arising from the use or distribution of our products. Those provisions often contain various limitations including limits on the amount of protection provided.

As permitted under Delaware law, pursuant to our bylaws, charter, and indemnification agreements with our current and former executive officers, directors, and general counsel, we are required, subject to certain limited qualifications, to indemnify our executive officers, directors, and general counsel for certain events or occurrences while the executive officer, director, or general counsel is or was serving at our request in such capacity. The indemnification period covers all pertinent events and occurrences during the executive officer's, director's, or general counsel's lifetime. The maximum potential future payments we may be obligated to make under these indemnification agreements is unlimited; however, we have director and officer insurance coverage that limits our exposure and may enable us to recover a portion of any future amounts paid.

Legal Proceedings

We may be involved, from time to time, in a variety of claims, lawsuits, investigations, or proceedings relating to contractual disputes, securities laws, intellectual property rights, employment, or other matters that may arise in the normal course of business. We assess our potential liability in each of these matters by using the information available to us. We develop our views on estimated losses in consultation with inside and outside counsel, which involves a subjective analysis of potential results and various combinations of appropriate litigation and settlement strategies. We accrue estimated losses from contingencies if a loss is deemed probable and can be reasonably estimated.

As of December 31, 2016, we are subject to the matter discussed below.

MDG Matter

EFI acquired Matan in 2015 from sellers (the "2015 Sellers") that acquired Matan Digital Printing Ltd. from other sellers in 2001 (the "2001 Sellers"). The 2001 Sellers have asserted a claim against the 2015 Sellers and Matan asserting that they are entitled to a portion of the 2015 Sellers' proceeds from EFI's acquisition. The 2015 Sellers dispute any such claim and have fully indemnified EFI against the 2001 Sellers' claim.

Although we are fully indemnified and we do not believe that it is probable that we will incur a loss, it is reasonably possible that our financial statements could be materially affected by an unfavorable resolution of this matter. Accordingly, it is reasonably possible that we could incur a material loss in this matter. We estimate the range of loss to be between one dollar and $10.1 million. If we incur a loss in this matter, it will be offset by an indemnification receivable of an equal amount representing a claim against the escrow account established in connection with the Matan acquisition.

Other Matters

As of December 31, 2016, we were subject to various other claims, lawsuits, investigations, and proceedings in addition to the matter discussed above. There is at least a reasonable possibility that additional losses may be incurred in excess of the amounts that we have accrued. However, we believe that these claims are not material to our financial statements or the range of reasonably possible losses is not reasonably estimable. Litigation is inherently unpredictable, and while we believe that we have valid defenses with respect to legal matters pending against us, our financial statements could be materially affected in any particular period by the unfavorable resolution of one or more of these contingencies or because of the diversion of management's attention and the incurrence of significant expenses.

Note 9: Common Stock Repurchase Programs

On November 6, 2013, the board of directors approved the repurchase of $200 million of outstanding common stock. Under this publicly announced plan, we repurchased 1.8 and 1.5 million shares for an aggregate purchase price of $74.2 and $65.7 million during the years ended December 31, 2016 and 2015, respectively.

On November 9, 2015, the board of directors cancelled $54.9 million remaining for repurchase under the 2013 authorization and approved a new authorization to repurchase $150 million of outstanding common stock commencing January 1, 2016. This authorization expires December 31, 2018.

Our employees have the option to surrender shares of common stock to satisfy their tax withholding obligations that arise on the vesting of RSUs. In connection with stock option exercises, certain employees can surrender shares to satisfy the exercise price of certain stock options and any tax withholding obligations incurred in connection with such exercises. Employees surrendered 0.2 and 0.2 million shares for an aggregate purchase price of $9.1 and $10.7 million for the years ended December 31, 2016 and 2015, respectively.

These repurchased shares reduce shares outstanding and are recorded as treasury stock under the cost method thereby reducing stockholders' equity by the cost of the repurchased shares. Our buyback program is limited by SEC regulations and is subject to compliance with our insider trading policy.

Note 10: Derivatives and Hedging

We are exposed to market risk and foreign currency exchange risk from changes in foreign currency exchange rates, which could affect operating results, financial position, and cash flows. We manage our exposure to these risks through our regular operating and financing activities and, when appropriate, through the use of derivative financial instruments. These derivative financial instruments are used to hedge monetary assets and liabilities, intercompany balances, trade receivables, anticipated cash flows, and to reduce earnings and cash flow volatility resulting from shifts in market rates. Our objective is to offset gains and losses resulting from these exposures with losses and gains on the derivative contracts used to hedge them, thereby reducing volatility of earnings or protecting fair values of assets and liabilities. We do not have any leveraged derivatives, nor do we use derivative contracts for speculative purposes. ASC 815 requires the fair value of all derivative instruments, including those embedded in other contracts, to be recorded as assets or liabilities in our Consolidated Balance Sheet. The related cash flow impacts of our derivative contracts are reflected as cash flows from operating activities.

Our exposures are primarily related to non-U.S. dollar-denominated revenue in Europe, the U.K., Latin America, China, Israel, Australia, New Zealand, Canada, and to non-U.S. dollar-denominated operating expenses in Europe, India, Japan, the U.K., China, Israel, Brazil, and Australia. We hedge our operating expense cash flow exposure in Indian rupees. We hedge balance sheet remeasurement exposure associated with Brazilian real, British pound sterling, Israeli shekel, Australian dollar, Japanese yen, Chinese renminbi, and Euro-denominated intercompany balances; Brazilian real, British pound sterling, Australian dollar, Israeli shekel, and Euro-denominated trade receivables; and British pound sterling, Indian rupee, and Euro-denominated-denominated net monetary assets.

By their nature, derivative instruments involve, to varying degrees, elements of market and credit risk. The market risk associated with these instruments resulting from currency exchange movement is expected to offset the market risk of the underlying transactions, assets, and liabilities being hedged (i.e., operating expense exposure in Indian rupees; the collection of Brazilian real, British pound sterling, Australian dollar, Israeli shekel, and Euro-denominated trade receivables; and the settlement of Brazilian real, British pound sterling, Israeli shekel, Australian dollar, Japanese yen, Chinese renminbi, and Euro-denominated intercompany balances). We do not believe there is significant risk of loss from non-performance by the counterparty associated with these instruments because, by policy, we deal with counterparties having a minimum investment grade or better credit rating. Credit risk is managed through the continuous monitoring of exposures to such counterparties.

Cash Flow Hedges

Foreign currency derivative contracts with notional amounts of $3.2 million and net asset/liability amounts that are immaterial have been designated as cash flow hedges of our Indian rupee operating expense exposure at December 31, 2016 and 2015. The changes in fair value of these contracts are reported as a component of OCI and reclassified to operating expense in the periods of payment of the hedged operating expenses. The ineffective portion of the derivative hedging gain or loss, as well as changes in the derivative time value (which is excluded from the assessment of hedge effectiveness), are recognized as a component of interest income and other income (expense), net.

Balance Sheet Hedges

Forward contracts not designated as hedging instruments with notional amounts of $158.7 and $115.4 million are used to hedge foreign currency balance sheet exposures at December 31, 2016 and 2015, respectively. They are not designated for hedge accounting treatment since there is a natural offset for the remeasurement of the underlying foreign currency denominated asset or liability. We recognize changes in the fair value of non-designated derivative instruments in earnings in the period of change. Gains (losses) on foreign currency forward contracts used to hedge balance sheet exposures are recognized in interest income and other income (expense), net, in the same period as the remeasurement gain (loss) of the related foreign currency denominated assets and liabilities. Forward contracts not designated as hedging instruments consist of hedges of Brazilian real, British pound sterling, Israeli shekel, Australian dollar, Japanese yen, Chinese renminbi, and Euro-denominated intercompany balances with notional amounts of $90.7 and $63.7 million at December 31, 2016 and 2015, respectively, hedges of Brazilian real, British pound sterling, Australian dollar, Israeli shekel, and Euro-denominated trade receivables with notional amounts of $39.8 and $49.1 million at December 31, 2016 and 2015, respectively, and hedges of British pounds sterling, Indian rupee, and Euro-denominated other net monetary assets with notional amounts of $28.2 and $2.6 million at December 31, 2016 and 2015, respectively.

Note 11: Income Taxes

The components of income before income taxes for the years ended December 31, 2016, 2015, and 2014 are as follows (in thousands):

	2016	2015	2014
U.S.	$ 8,254	$ 9,311	$15,090
Foreign	31,128	28,211	26,997
Total	$39,382	$37,522	$42,087

The provision for (benefit from) income taxes for the years ended December 31, 2016, 2015, and 2014 is summarized as follows (in thousands):

	2016	2015	2014
Current:			
U.S. Federal	$ (7,593)	$ 3,755	$ 5,050
State	662	1,813	1,237
Foreign	11,722	5,798	7,922
Total current	4,791	11,366	14,209
Deferred:			
U.S. Federal	(4,276)	(3,119)	(94)
State	(567)	(583)	846
Foreign	(6,112)	(3,682)	(6,588)
Total deferred	(10,955)	(7,384)	(5,836)
Provision for (benefit from) income taxes	$ (6,164)	$ 3,982	$ 8,373

The reconciliation of the income tax provision (benefit) computed at the federal statutory rate to the actual tax provision (benefit) for the years ended December 31, 2016, 2015, and 2014 is as follows (in thousands):

	2016		2015		2014	
Tax provision at federal statutory rate	$ 13,783	35.0%	$13,133	35.0%	$14,731	35.0%
State income taxes, net of federal benefit	62	0.2	800	2.1	360	0.9
Research and development credits	(2,627)	(6.7)	(4,217)	(11.2)	(2,629)	(6.2)
Effect of foreign operations	(3,439)	(8.7)	(3,483)	(9.3)	(2,293)	(5.4)
Increase in value of intangible assets	—	—	—	—	(3,130)	(7.4)
Reduction in accrual for estimated potential tax assessments	(15,404)	(39.1)	(4,808)	(12.7)	(2,088)	(5.0)
Non-deductible stock-based compensation pursuant to ASC 718-740	1,288	3.3	3,244	8.6	2,793	6.6
Domestic manufacturing deduction	(831)	(2.1)	(878)	(2.3)	(598)	(1.4)
Other	1,004	2.4	191	0.4	1,227	2.8
Provision for (benefit from) income taxes	$ (6,164)	(15.7)%	$ 3,982	10.6%	$ 8,373	19.9%

During the year ended December 31, 2016, we recognized a $16.6 million tax benefit (including state tax benefit) from the release of previously unrecognized tax benefits due to the expiration of U.S. federal, state, and foreign statutes of limitations, of which $10.3 million related to the 2012 sale of our Foster City building and land.

During the year ended December 31, 2014, we recognized a $3.1 million tax benefit related to the increased valuation of intangible assets for Brazilian tax reporting resulting from the merger of our Brazilian subsidiaries.

We earn a significant amount of our operating income outside the U.S., which is deemed to be permanently reinvested in foreign jurisdictions. Of the income generated in jurisdictions with tax rates materially lower than the statutory U.S. tax rate of 35%, most is earned in the Netherlands, Spain, United Kingdom, Italy, and the Cayman Islands. Our effective tax rate could fluctuate significantly and be adversely impacted if anticipated earnings in the Netherlands, Spain, and the Cayman Islands are proportionally lower than current projections and earnings in all other jurisdictions are proportionally higher than current projections.

While we currently do not foresee a need to repatriate the earnings of foreign operations, should we require more capital in the U.S. than is generated by our U.S. operations, we may elect to repatriate funds held in our foreign jurisdictions or raise capital in the U.S. through debt or equity issuances. These alternatives could result in higher effective tax rates, the cash payments of taxes and/or increased interest expense. As of December 31, 2016, we have permanently reinvested $164.6 million of unremitted foreign earnings. Should these earnings be remitted to the U.S., the tax on these earnings would be $34.6 million.

In Altera Corp.v. Commissioner, the U.S Tax Court issued an opinion on July 27, 2015, related to the treatment of stock-based compensation expense in an intercompany cost-sharing arrangement. To date, the U.S. Department of the Treasury has not withdrawn the requirement to include stock-based compensation in intercompany cost-sharing arrangements from its regulations. Due to the uncertainty related to the status of the current regulations and the ultimate outcome of the appeal, we have not recorded any benefit as of December 31, 2016 in our Consolidated Statement of Operations. We will continue to monitor ongoing developments and potential impacts to our consolidated financial statements.

The tax effects of temporary differences that give rise to deferred tax assets (liabilities) as of December 31, 2016 and 2015 are as follows (in thousands):

	2016	2015
Reserves and accruals not currently deductible for tax purposes	$ 14,079	$ 13,804
Net operating loss carryforwards	10,055	10,409
Tax credit carryforwards	63,985	44,176
Deferred revenue	1,642	3,778
Stock-based compensation	8,487	8,309
Other	6,222	5,099
Gross deferred tax assets	104,470	85,575
Depreciation and amortization	(17,845)	(24,042)
State Taxes	(2,092)	(1,841)
Gross deferred tax liabilities	(19,937)	(25,883)
Deferred tax valuation allowance	(42,406)	(37,652)
Net deferred tax assets	$ 42,127	$ 22,040

We have $16.1 million ($54.8 million for state tax purposes) and $42.3 million ($37.3 million for state tax purposes) of loss and credit carryforwards at December 31, 2016 for U.S. federal tax purposes. A majority of these federal and state losses and credits will expire between 2022 and 2027. A significant portion of these net operating loss and credit carryforwards relate to recent acquisitions. Utilization of these loss and credit carryforwards will be subject to an annual limitation under the Internal Revenue Code ("IRC"). We also have a valuation allowance related to California and Luxembourg deferred tax assets.

We assess the likelihood that our deferred tax assets will be recovered from future taxable income by considering both positive and negative evidence relating to their recoverability. If we believe that recovery of these deferred tax assets is not more likely than not, we establish a valuation allowance. Significant judgment is required in determining any valuation allowance recorded against deferred tax assets. In assessing the need for a valuation allowance, we considered all available evidence, including recent operating results, projections of future taxable income, our ability to utilize loss and credit carryforwards, and the feasibility of tax planning strategies. Other than valuation allowances on deferred tax assets related to California, Luxembourg, Israel, Netherlands, and Turkey deferred tax assets that will not be realized based on the size of the net operating loss and research and development credits being generated, we have determined that it is more likely than not that we will realize the benefit related to all other deferred tax assets. To the extent we increase a valuation allowance, we will include an expense within the tax benefit in the Consolidated Statement of Operations in the period in which such determination is made.

A reconciliation of the change in the gross unrecognized tax benefits from January 1, 2014 to December 31, 2016 is as follows (in millions):

	Federal, State, and Foreign Tax	Accrued Interest and Penalties	Gross Unrecognized Income Tax Benefits
Balance at January 1, 2014	$ 32.4	$ 0.6	$ 33.0
Additions for tax positions of prior years	0.9	0.4	1.3
Additions for tax positions related to 2014	3.6	—	3.6
Reductions due to lapse of applicable statute of limitations	(2.7)	(0.2)	(2.9)
Balance at December 31, 2014	$ 34.2	$ 0.8	$ 35.0
Additions for tax positions of prior years	14.1	0.2	14.3
Additions for tax positions related to 2015	4.7	—	4.7
Reductions due to lapse of applicable statute of limitations	(6.9)	(0.5)	(7.4)
Balance at December 31, 2015	$ 46.1	$ 0.5	$ 46.6
Additions for tax positions of prior years	1.8	0.2	2.0
Additions for tax positions related to 2016	3.9	—	3.9
Reductions due to lapse of applicable statute of limitations	(16.4)	(0.2)	(16.6)
Balance at December 31, 2016	$ 35.4	$ 0.5	$ 35.9

As of December 31, 2016, 2015, and 2014, gross unrecognized benefits that would affect the effective tax rate if recognized were $32.0, $43.5, and $32.1 million, respectively, offset by deferred tax benefits of $1.1, $1.0, and $0.7 million related to the federal tax effect of state income taxes for the same periods. Over the next twelve months, our existing tax positions will continue to generate increased liabilities for unrecognized tax benefits. It is reasonably possible that our gross unrecognized tax benefits will decrease up to $3.5 million in the next twelve months. These adjustments, if recognized, would positively impact our effective tax rate, and would be recognized as additional tax benefits in our Consolidated Statements of Operations.

In accordance with ASU 2013-11, we recorded $20.0 million of gross unrecognized tax benefits as an offset to deferred tax assets as of December 31, 2016, and the remaining $12.0 million has been recorded as noncurrent income taxes payable.

We recognize potential accrued interest and penalties related to unrecognized tax benefits in income tax expense. At December 31, 2016, 2015, and 2014, we have accrued $0.5, $0.5, and $0.9 million, respectively, for potential payments of interest and penalties.

In accordance with ASU 2016-09, which was adopted in the second quarter of 2016, we recorded $2.2 million of deferred tax assets related to excess tax benefits for federal research and development income tax credits not previously benefitted and $0.6 million of deferred tax assets for the tax benefit on the cumulative effect adjustment associated with the change in accounting for RSU forfeitures.

We are subject to examination by the Internal Revenue Service ("IRS") for the 2013-2015 tax years, state tax jurisdictions for the 2012-2015 tax years, the Netherlands tax authority for the 2014-2015 tax years, the Spanish tax authority for the 2012-2015 tax years, and the Italian tax authority for the 2012-2015 tax years.

Note 12: Employee Benefit Plans

Equity Incentive Plans

As of December 31, 2016, we had outstanding equity awards under our 2009 Plan, which is defined below. No awards may be granted under our 2007 Stock Plan. Our primary equity incentive plans are summarized as follows:

2009 Stock Plan

As most recently amended on June 4, 2013, our stockholders approved amendments to the Amended and Restated 2009 Equity Incentive Award Plan ("2009 Plan") to increase the number of shares of common stock reserved under the plan for future issuance up to 11.6 million shares and authorize the granting of performance-based awards under the plan through the 2018 annual meeting of stockholders.

The 2009 Plan provides for grants of stock options (both incentive and nonqualified stock options), restricted stock awards, stock appreciation rights, performance shares, performance stock units, dividend equivalents, stock payments, deferred stock, RSUs, and performance-based awards. Options and awards generally vest over a period of one to four years from the date of grant and generally expire seven to ten years from the date of the grant. The terms of the 2009 Plan provide that an option price shall not be less than 100% of fair value on the date of the grant. Our board of directors may grant a stock bonus or stock unit award under the 2009 Plan in lieu of all or a portion of any cash bonus that a participant would have otherwise received for the related performance period.

The shares of common stock covered by the 2009 Plan may be treasury shares, authorized but unissued shares, or shares purchased in the open market. If an award under the 2009 Plan is forfeited (including a reimbursement of a non-vested award upon a participant's termination of employment at a price equal to the par value of the common stock subject to the award) or expired, any shares of common stock subject to the award may be used again for new grants under the 2009 Plan.

The 2009 Plan is administered by the Compensation Committee of the Board of Directors ("Committee"). The Committee has the exclusive authority to administer the 2009 Plan, including the power to (i) designate participants under the 2009 Plan, (ii) determine the types of awards granted to participants under the 2009 Plan, the number of such awards, and the number of shares of our common stock that is subject to such awards, (iii) determine and interpret the terms and conditions of any awards under the 2009 Plan, including the vesting schedule, exercise price, whether to settle or accept the payment of any exercise price, in cash, common stock, other awards, or other property, and whether an award may be cancelled, forfeited, or surrendered, (iv) prescribe the form of each award agreement, and (v) adopt rules for the administration, interpretation, and application of the 2009 Plan.

Persons eligible to participate in the 2009 Plan include all of our employees, directors, and consultants, as determined by the Committee. As of December 31, 2016, approximately 3,600 employees and consultants and 5 non-employee directors were eligible to participate in the 2009 Plan.

There were 2.4, 2.3, and 2.5 million shares outstanding and 1.7, 2.7, and 3.4 million shares available for grant under the 2009 Plan as of December 31, 2016, 2015, and 2014, respectively.

Amended and Restated 2000 Employee Stock Purchase Plan

As most recently amended on June 4, 2013, our stockholders approved the Amended and Restated 2000 Employee Stock Purchase Plan that increased the number of shares authorized for issuance pursuant to such plan by 2 million shares. The share increase was intended to ensure that we continue to have a sufficient reserve of common stock available under the ESPP to provide our eligible employees with the opportunity to acquire our common stock through participation in a payroll deduction-based ESPP designed to operate in compliance with Section 423 of the IRC. The ESPP does not provide for an automatic increase in the number of shares reserved for issuance under the ESPP.

The ESPP is qualified under Section 423 of the IRC. Eligible employees may contribute from one to ten percent of their base compensation. Employees are not able to purchase more than the number of shares having a value greater than $25,000 in any calendar year, as measured at the beginning of the offering period under the ESPP. The purchase price shall be the lesser of 85% of the fair value of the stock, either on the offering date or on the purchase date. The offering period shall not exceed 27 months beginning with the offering date. The ESPP provides for offerings of four consecutive, overlapping six-month offering periods, with a new offering period commencing on the first trading day on or after February 1 and August 1 of each year.

During each of the years ended December 31, 2016, 2015, and 2014, there were 0.3, 0.3, and 0.6 million shares issued under the ESPP at an average purchase price of $32.88, $31.66, and $13.54, respectively. As of December 31, 2016, there was $0.5 million of total unrecognized compensation cost related to stock-based compensation arrangements granted under the ESPP, which is expected to be recognized over a period of 1.8 years. At December 31, 2016, 2015, and 2014, there were 1.2, 1.5, and 1.8 million shares, respectively, of our common stock reserved for issuance under the ESPP.

Employee 401(k) Plan

We sponsor a 401(k) Savings Plan ("401(k) Plan") that provides retirement and incidental benefits for our employees. Employees may contribute from 1% to 40% of their annual compensation to the 401(k) Plan, limited to a maximum annual amount as set periodically by the IRS. In 2014, the maximum employee contribution was increased from 40% to 75%. We match 50% of U.S. employee contributions, up to a maximum of the first 4% of the employee's compensation contributed to the plan, subject to IRS limitations. All matching contributions vest over four years starting with the hire date of the individual employee. Our matching contributions to the 401(k) Plan totaled $2.2, $2.3, and $2.1 million during the years ended December 31, 2016, 2015, and 2014, respectively. The employees' contributions and our contributions are invested in mutual funds managed by a fund manager, or in self-directed retirement plans.

Valuation and Expense Information under ASC 718

We account for stock-based payment awards in accordance with ASC 718, which requires the measurement and recognition of compensation expense for all equity awards granted to our employees and directors, including employee stock options, RSUs, and ESPP purchase rights related to all stock-based compensation plans based on the fair value of such awards on the date of grant. We amortize stock-based compensation cost on a graded vesting basis over the vesting period reduced by forfeitures, after assessing the probability of achieving the requisite performance criteria with respect to performance-based awards. Stock-based compensation cost is recognized over the requisite service period for each separately vesting tranche of the award as though the award were, in substance, multiple awards. Prior to adoption of ASU 2016-09 in the first quarter of 2016 as explained more fully in Note 1—The Company and Its Significant Accounting Policies, stock-based compensation expense included estimated forfeitures.

We use the BSM option pricing model to value stock-based compensation for all equity awards, except market-based awards. We value market-based awards using a Monte Carlo valuation model.

The BSM model determines the fair value of stock-based payment awards based on the stock price on the date of grant and is affected by assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, our expected stock price volatility over the term of the awards, expected term, interest rates, and actual and projected employee stock option exercise behavior. Expected volatility is based on the historical volatility of our stock over a preceding period commensurate with the expected term of the option. The expected term is based upon management's consideration of the historical life, vesting period, and contractual period of the options granted. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant. Expected dividend yield was not considered in the option pricing formula since we do not pay dividends and have no current plans to do so in the future.

Stock-based compensation expense related to stock options, RSUs, ESPP purchase rights, and stock options under ASC 718 for the years ended December 31, 2016, 2015, and 2014 is summarized as follows (in thousands):

	2016	2015	2014
RSUs	28,952	29,671	32,429
ESPP purchase rights	2,795	4,003	3,368
Employee stock options	79	397	264
Total stock-based compensation	31,826	34,071	36,061
Income tax benefit	(10,342)	(9,436)	(10,045)
Stock-based compensation expense, net of tax	$ 21,484	$24,635	$ 26,016

Valuation Assumptions for Stock Options and ESPP Purchases

Our determination of the fair value of stock-based payment awards on the date of grant using BSM is affected by various assumptions including volatility, expected term, and interest rates. Expected volatility is based on the historical volatility of our stock over a preceding period commensurate with the expected term of the stock option. The expected term is based on management's consideration of the historical life of the stock options, the vesting period of the stock options granted, and the contractual period of the stock options granted. The risk-free interest rate for the expected term of the stock options is based on the U.S. Treasury yield curve in effect at the time of grant. Expected dividend yield was not considered in the option pricing formula since we do not pay dividends and have no current plans to do so in the future.

Stock options were not granted during the years ended December 31, 2016, 2015, and 2014. The estimated weighted average fair value per share of ESPP purchase rights issued and the assumptions used to estimate fair value for the years ended December 31, 2016, 2015, and 2014 are as follows:

	2016	2015	2014
Weighted average fair value per share	$ 10.69	$ 10.28	$ 11.12
Expected volatility	22% - 32%	19% - 28%	25% - 28%
Risk-free interest rate	0.4% - 0.8%	0.1% - 0.7%	0.1% - 0.5%
Expected term (in years)	0.5 - 2.0	0.5 - 2.0	0.5 - 2.0

Stock Option Activity

Stock options outstanding and exercisable, including performance-based and market-based options, as of December 31, 2016, 2015, and 2014 and activity for each of the years then ended are summarized as follows (in thousands, except weighted average exercise price and remaining contractual term):

	Shares	Weighted average exercise price	Weighted average remaining contractual term (years)	Aggregate intrinsic value
Options outstanding at January 1, 2014	1,060	$14.66		
Options forfeited and expired	(4)	25.63		
Options exercised	(490)	15.72		
Options outstanding at December 31, 2014	566	$13.67		
Options exercised	(124)	15.35		
Options outstanding at December 31, 2015	442	$13.20		
Options forfeited and expired	(12)	10.77		
Options exercised	(115)	11.64		
Options outstanding at December 31, 2016	315	$13.86	1.46	$9,480
Options vested and expected to vest at December 31, 2016	315	$13.86	1.46	$9,480
Options exercisable at December 31, 2016	315	$13.86	1.46	$9,480

Aggregate stock option intrinsic value represents the difference between the closing price per share of our common stock on the last trading day of the fiscal period and the exercise price of the underlying awards for the options that were in the money at December 31, 2016, 2015, and 2014. The total intrinsic value of options exercised, determined as of the date of option exercise, was $3.8, $3.7, and $13.2 million for the years ended December 31, 2016, 2015, and 2014, respectively. There was no unrecognized compensation cost related to stock options expected to vest as of December 31, 2016. The weighted average exercise price ranges between $11.40 and $16.57. The weighted average remaining contractual term ranges between 0.64 and 2.68 years.

Non-vested RSUs

Non-vested RSUs were awarded to employees under our equity incentive plans. Non-vested RSUs do not have the voting rights of common stock and the shares underlying non-vested RSUs are not considered issued and outstanding. Non-vested RSUs generally vest over a service period of one to four years. The compensation expense incurred for these service-based awards is based on the closing market price of our stock on the date of grant and is amortized on a graded vesting basis over the requisite service period. The weighted average fair value of RSUs granted during the years ended December 31, 2016, 2015, and 2014 were $43.35, $41.61, and $41.71, respectively.

Non-vested RSUs, including performance-based and market-based RSUs, as of December 31, 2016, 2015, and 2014, and activity for each of the years then ended, are summarized as follows (shares in thousands):

	Shares	Weighted average grant date fair value
Non-vested at January 1, 2014	2,089	$23.44
Restricted stock granted	1,272	41.71
Restricted stock vested	(1,174)	21.94
Restricted stock forfeited	(184)	23.62
Non-vested at December 31, 2014	2,003	$35.91
Restricted stock granted	1,104	41.61
Restricted stock vested	(925)	32.39
Restricted stock forfeited	(368)	39.08
Non-vested at December 31, 2015	1,814	$40.53
Restricted stock granted	1,359	43.35
Restricted stock vested	(787)	38.34
Restricted stock forfeited	(303)	39.54
Non-vested at December 31, 2016	2,083	$43.34

Vested RSUs

Performance-based RSUs that vested based on annual financial results are included in the period that the performance criteria were met. The grant date fair value of RSUs that vested during the years ended December 31, 2016, 2015, and 2014 were $38.34, $32.39, and $21.94 million, respectively. Aggregate intrinsic value of RSUs vested and expected to vest at December 31, 2016 was $79.1 million calculated as the closing price per share of our common stock on the last trading day of the fiscal period multiplied by 1.8 million RSUs vested and expected to vest at December 31, 2016. RSUs expected to vest represent time-based RSUs unvested and outstanding at December 31, 2016, and performance-based RSUs for which the requisite service period has not been rendered, but are expected to vest based on the achievement of performance conditions. There was approximately $33.9 million of unrecognized compensation costs related to RSUs expected to vest as of December 31, 2016. That cost is expected to be recognized over a weighted average period of 1.33 years.

Performance-based and Market-based RSUs and Stock Options

Performance-based and market-based RSUs included in the tables above as of December 31, 2016, 2015, and 2014, and activity for each of the years then ended, are summarized below (in thousands):

	Performance-based		Market-based
	RSUs	Stock Options	RSUs
Non-vested at January 1, 2014	680	16	—
Granted	709	—	34
Vested	(403)	—	—
Forfeited	(134)	—	—
Non-vested at December 31, 2014	852	16	34
Granted	569	—	18
Vested	(284)	—	(3)
Forfeited	(217)	—	(26)
Non-vested at December 31, 2015	920	16	23
Granted	821	—	—
Vested	(226)	(4)	—
Forfeited	(250)	(12)	—
Non-vested at December 31, 2016	1,265	—	23

Approximately 21% of the non-vested performance-based RSUs at December 31, 2016 subsequently vested during the first quarter of 2017 based on achievement of specified performance criteria related to revenue and non-GAAP operating income targets.

We use the BSM option pricing model to value performance-based awards. We use a Monte Carlo option pricing model to value market-based awards. The estimated grant date fair value per share of performance-based and market-based RSUs granted and the assumptions used to estimate grant date fair value for the years ended December 31, 2016, 2015, and 2014 are as follows:

	Performance-based RSUs		Market-based RSUs
	Short-term	Long-term	
Year ended December 31, 2016 Grants			
Grant date fair value per share	$39.79	$ 45.76	
Service period (years)	1.0	2.0 - 3.0	
Year ended December 31, 2015 Grants			
Grant date fair value per share	$38.77	$ 42.82	$33.84
Service period (years)	1.0	2.0 - 3.0	
Derived service period (years)			1.60
Implied volatility			30.0%
Risk-free interest rate			1.7%
Year ended December 31, 2014 Grants			
Grant date fair value per share	$42.04	$ 40.30	$32.10
Service period (years)	1.0	4.0	
Derived service period (years)			1.53
Implied volatility			35.0%
Risk-free interest rate			2.3%

Our performance-based RSUs generally vest when specified performance criteria are met based on bookings, revenue, cash provided by operating activities, non-GAAP operating income, non-GAAP earnings per share, revenue growth compared to market comparables, non-GAAP earnings per share growth compared to cash flow from operating activities growth, or other targets during the service period; otherwise, they are forfeited. Non-GAAP operating income is defined as operating income determined in accordance with GAAP, adjusted to remove the impact of certain expenses as defined in Unaudited Non-GAAP Financial Information. Non-GAAP earnings per share is defined as net income determined in accordance with GAAP, adjusted to remove the impact of certain expenses, divided by the weighted average number of common shares and dilutive potential common shares outstanding during the period as more fully defined in Note 2—Earnings Per Share of the Notes to Consolidated Financial Statements.

The grant date fair value per share determined in accordance with the BSM valuation model is being amortized over the service period of the performance-based awards. The probability of achieving the awards was determined based on review of the actual results achieved thus far by each business unit compared with the operating plan during the pertinent service period as well as the overall strength of the business unit. Stock-based compensation expense was adjusted based on this probability assessment. As actual results are achieved during the service period, the probability assessment is updated and stock-based compensation expense adjusted accordingly.

Market-based awards vest when our average closing stock price exceeds defined multiples of the closing stock price on a specified date for 90 consecutive trading days. If these multiples were not achieved by another specified date, the awards are forfeited. The grant date fair value is being amortized over the average derived service period of the awards. The average derived service period and total fair value were determined using a Monte Carlo valuation model based on our assumptions, which include a risk-free interest rate and implied volatility.

Note 13: Restructuring and Other

During the years ended December 31, 2016, 2015, and 2014, cost reduction actions lowered our operating expense run rate as we continue to analyze our cost structure and re-align our cost structure following our business acquisitions. These charges primarily relate to cost reduction actions undertaken to integrate recently acquired businesses, consolidate facilities, and lower our operating expense run rate. Restructuring and other consists primarily of restructuring, severance, retention, facility downsizing and relocation, and acquisition integration expenses. Our restructuring and other plans are accounted for in accordance with ASC 420, ASC 712, and ASC 820.

Restructuring and other costs for the years ended December 31, 2016, 2015, and 2014 were $6.7, $5.7, and $6.6 million, respectively. Restructuring and other charges include severance costs of $4.1, $3.0, and $3.2 million related to head count reductions of 128, 99, and 130 for the years ended December 31, 2016, 2015, and 2014, respectively. Severance costs include severance payments, related employee benefits, retention bonuses, outplacement fees, and relocation costs.

Facilities relocation and downsizing costs for the years ended December 31, 2016, 2015, and 2014 were $0.5, $0.9, and $2.0 million, respectively. Facilities restructuring and other costs are primarily related to the relocation of certain manufacturing and administrative locations to accommodate additional space requirements in 2016 and 2015, and consolidation of our German operations in 2014. Integration expenses for the years ended December 31, 2016, 2015, and 2014 of $2.1, $1.8, and $1.4 million, respectively, were required to integrate our business acquisitions.

Restructuring and other reserve activities for the years ended December 31, 2016 and 2015 are summarized as follows (in thousands):

	2016	2015
Reserve balance at January 1	$ 3,019	$ 2,102
Restructuring charges	2,808	3,109
Other charges	3,921	2,622
Non-cash restructuring and other	(403)	—
Cash payments	(7,521)	(4,814)
Reserve balance at December 31	$ 1,824	$ 3,019

Note 14: Segment Information, Geographic Regions, and Major Customers

Operating Segments

Operating segment information is required to be presented based on the internal reporting used by the chief operating decision making group ("CODM") to allocate resources and evaluate operating segment performance. Our CODM is comprised of our Chief Executive Officer and Chief Financial Officer. The CODM group is focused on assessment and resource allocation among the Industrial Inkjet, Productivity Software, and Fiery operating segments.

Our operating segments are integrated through their reporting and operating structures, shared technology and practices, shared sales and marketing, and combined production facilities. Our enterprise management processes use financial information that is closely aligned with our three operating segments at the gross profit level. Relevant discrete financial information is prepared at the gross profit level for each of our three operating segments, which is used by the CODM to allocate resources and assess the performance of each operating segment.

We classify our revenue, operating segment profit (i.e., gross profit), assets, and liabilities in accordance with our operating segments as follows:

Industrial Inkjet, which consists of our VUTEk and Matan super-wide and wide format display graphics, Reggiani textile, Jetrion label and packaging, and Cretaprint ceramic tile decoration and construction material industrial digital inkjet printers; UV curable, LED curable, ceramic, water-based, and thermoforming ink, as well as a variety of textile ink including dye sublimation, pigmented, reactive dye, acid dye, pure disperse dye, and water-based dispersed printing ink; digital inkjet printer parts; and professional services. Printing surfaces include paper, vinyl, corrugated, textile, glass, plastic, aluminum composite, ceramic tile, wood, and many other flexible and rigid substrates.

Productivity Software, which consists of a complete software suite that enables efficient and automated end-to-end business and production workflows for the print and packaging industry. This *Productivity Suite* also provides tools to enable revenue growth, efficient scheduling, and optimization of processes, equipment, and personnel. Customers are provided the financial and technical flexibility to deploy locally within their business or to be hosted in the cloud. The Productivity Suite addresses all segments of the print industry and consists of the: (i) *Packaging Suite,* with Radius at its core, for tag & label, cartons, and flexible packaging businesses; (ii) *Corrugated Packaging Suite,* with CTI at its core, for corrugated packaging businesses; (iii) *Enterprise Commercial Print Suite,* with Monarch at its core, for enterprise print businesses; (iv) *Publication Print Suite,* with Monarch or Technique at its core, for publication print businesses; (v) *Mid-market Print Suite,* with Pace at its core, for medium size print businesses; (vi) *Quick Print Suite,* with PrintSmith at its core, for small printers and in-plant sites; and (vii) *Value Added Products,* available with the suite and standalone, such as web-to-print, e-commerce, cross media marketing, warehousing, fulfillment, shop floor data collection, and shipping to reduce costs, increase profits, and offer new products and services to their existing and future customers. We also market Optitex fashion CAD software, which facilitates fast fashion and increased efficiency in the textile and fashion industries.

Fiery, which consists of digital front ends ("DFEs") that transform digital copiers and printers into high performance networked printing devices for the office, industrial, and commercial printing markets. This operating segment is comprised of (i) stand-alone DFEs connected to digital printers, copiers, and other peripheral devices, (ii) embedded DFEs and design-licensed solutions used in digital copiers and multi-functional devices, (iii) optional software integrated into our DFE solutions such as Fiery Central and Graphics Arts Package, (iv) Fiery Self Serve, our self-service and payment solution, (v) PrintMe, our mobile printing application, and (vi) stand-alone software-based solutions such as our proofing and scanning solutions.

Our CODM evaluates the performance of our operating segments based on net sales and gross profit. Gross profit for each operating segment includes revenue from sales to third parties and related cost of revenue attributable to the operating segment. Cost of revenue for each operating segment excludes certain expenses managed outside the operating segments consisting primarily of stock-based compensation expense. Operating income is not reported by operating segment because operating expenses include significant shared expenses and other costs that are managed outside of the operating segments. Such operating expenses include various corporate expenses such as stock-based compensation, corporate sales and marketing, research and development, income taxes, various non-recurring charges, and other separately managed general and administrative expenses.

Operating segment profit (i.e., gross profit), excluding stock-based compensation expense, for the years ended December 31, 2016, 2015, and 2014 is summarized as follows (in thousands):

	2016	2015	2014
Industrial Inkjet			
Revenue	$562,583	$447,705	$379,170
Gross profit	199,448	152,918	143,981
Gross profit percentages	35.5%	34.2%	38.0%
Productivity Software			
Revenue	$151,737	$135,350	$130,743
Gross profit	114,179	99,278	94,733
Gross profit percentages	75.2%	73.3%	72.5%
Fiery			
Revenue	$277,745	$299,458	$280,514
Gross profit	198,322	210,140	193,585
Gross profit percentages	71.4%	70.2%	69.0%

Operating segment profit (i.e., gross profit) for the years ended December 31, 2016, 2015, and 2014 is reconciled to the Consolidated Statements of Operations as follows (in thousands):

	2016	2015	2014
Segment gross profit	$511,949	$462,336	$432,299
Stock-based compensation expense	(2,784)	(2,837)	(2,562)
Other items excluded from segment profit	(475)	(115)	—
Gross profit	$508,690	$459,384	$429,737

Tangible and intangible assets, net of liabilities, are summarized by operating segment as of December 31, 2016 and 2015 as follows (in thousands):

	Industrial Inkjet	Productivity Software	Fiery	Corporate and Unallocated Net Assets	Total
December 31, 2016					
Goodwill	$141,068	$155,475	$63,298	$ —	$359,841
Identified intangible assets, net	84,465	38,440	92	—	122,997
Tangible assets, net of liabilities	156,202	(27,689)	33,325	183,156	344,994
Net tangible and intangible assets	$381,735	$166,226	$96,715	$183,156	$827,832
December 31, 2015					
Goodwill	$142,183	$133,128	$63,482	$ —	$338,793
Identified intangible assets, net	101,623	33,432	497	—	135,552
Tangible assets, net of liabilities	102,351	(10,023)	23,954	233,567	349,849
Net tangible and intangible assets	$346,157	$156,537	$87,933	$233,567	$824,194

Corporate and unallocated assets consist of cash and cash equivalents, short-term investments, restricted investments and cash equivalents, corporate headquarters facility, convertible notes, imputed financing obligation, income taxes receivable, and income taxes payable.

Geographic Regions

Our revenue originates in the U.S., China, the Netherlands, Germany, Italy, France, the U.K., Spain, Israel, Brazil, Australia, and New Zealand. We report revenue by geographic region based on ship-to destination. Shipments to some of our significant printer manufacturer/distributor customers are made to centralized purchasing and manufacturing locations, which in turn sell through to other locations. As a result of these factors, we believe that sales to certain geographic locations might be higher or lower, as the ultimate destinations are difficult to ascertain.

Our revenue by ship-to destination for the years ended December 31, 2016, 2015, and 2014 was as follows (in thousands):

	2016	2015	2014
Americas	$500,411	$473,599	$438,421
EMEA	360,305	291,103	244,545
APAC	131,349	117,811	107,461
Total Revenue	$992,065	$882,513	$790,427

Our tangible long-lived assets consist primarily of property and equipment, net, of $103.3 million. Of this amount, $88.5 million resides in the Americas, $12.9 million resides in EMEA, consisting primarily of Cretaprint and Reggiani equipment and leasehold improvements, and $1.9 million resides in APAC, consisting primarily of India leasehold improvements and equipment.

Major Customers

No customer accounted for more than 10% of our revenue for the year ended December 31, 2016. One customer, Xerox, provided revenue in excess of 10% of consolidated revenue by providing 12% and 11% of our consolidated revenue for the years ended December 31, 2015 and 2014, respectively. Xerox accounts receivable balance was 10% of our net consolidated accounts receivables at December 31, 2015.

15. Subsequent Events

Acquisition of the Freeflow Business from Xerox Corporation. (“Xerox”). On January 31, 2017, we acquired certain assets comprising Xerox’s FreeFlow Print Server DFE business for approximately $23.9 million in cash consideration.

SUPPLEMENTARY DATA

Unaudited Quarterly Consolidated Financial Information

The following table presents our operating results for each of the quarters in the years ended December 31, 2016 and 2015. The information for each of these quarters is unaudited, but has been prepared on the same basis as our audited consolidated financial statements appearing elsewhere in this Annual Report on Form 10-K. In the opinion of management, all necessary adjustments (consisting only of normal recurring adjustments) have been included that are required to state fairly our unaudited quarterly results when read in conjunction with our audited consolidated financial statements and the notes thereto appearing in this Annual Report on Form 10-K. These operating results are not necessarily indicative of the results for any future period.

	2016			
(in thousands except per share data)	Q1	Q2	Q3	Q4
Revenue	$234,133	$245,650	$245,575	$266,707
Gross profit	118,397	125,047	125,194	140,052
Income from operations	6,969	11,709	9,410	28,465
Net income	2,103	5,235	17,662	20,546
Net income per basic common share	$ 0.04	$ 0.11	$ 0.38	$ 0.44
Net income per diluted common share	$ 0.04	$ 0.11	$ 0.37	$ 0.43

	2015			
(in thousands except per share data)	Q1	Q2	Q3	Q4
Revenue	$194,554	$202,721	$228,694	$256,544
Gross profit	105,440	108,403	116,285	129,256
Income from operations	11,076	13,368	12,780	19,419
Net income	5,237	7,717	10,257	10,329
Net income per basic common share	$ 0.11	$ 0.16	$ 0.22	$ 0.22
Net income per diluted common share	$ 0.11	$ 0.16	$ 0.21	$ 0.21

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

None.

Item 9A: Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

We maintain “disclosure controls and procedures,” as this term is defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act, that are designed to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC 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 timely decisions regarding required disclosure. Our management, including the Chief Executive Officer and Chief Financial Officer, is engaged in a comprehensive effort to review, evaluate, and improve our controls; however, management does not expect that our disclosure controls will prevent all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system’s objectives are met. Additionally, in designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures is also based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Based on their evaluation as of the end of the period covered by this Annual Report on Form 10-K, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective to provide reasonable assurance as of December 31, 2016.

(b) Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) of the Exchange Act. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2016. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control—Integrated Framework (2013). Based on our assessment using those criteria, we concluded that our internal control over financial reporting was effective as of December 31, 2016.

Our management has excluded the internal control over financial reporting at Rialco and Optitex from its assessment of internal control over financial reporting as of December 31, 2016 because they were acquired in purchase business combinations during 2016. Rialco and Optitex represent approximately 4.4% and 2.0% of the total consolidated assets and total consolidated revenue, respectively, of the Company as of and for the year ended December 31, 2016.

Deloitte & Touche LLP, an independent registered public accounting firm, has audited the effectiveness of our internal control over financial reporting as of December 31, 2016, as stated in their report included in this Annual Report on Form 10-K.

(c) Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) identified in connection with our evaluation that occurred during the fourth quarter of fiscal 2016 that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

(d) Report of Independent Registered Public Accounting Firm

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Electronics For Imaging, Inc.
Fremont, California

We have audited the internal control over financial reporting of Electronics For Imaging, Inc. and subsidiaries (the "Company") as of December 31, 2016, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. As described in Management's Report on Internal Control over Financial Reporting, management excluded Rialco Limited ("Rialco") and Optitex Ltd. ("Optitex") from its assessment of internal control over financial reporting as of December 31, 2016 because they were acquired in purchase business combinations during 2016. Rialco and Optitex represent approximately 4.4% and 2.0% of the total consolidated assets and total consolidated revenue, respectively, of the Company as of and for the year ended December 31, 2016. Accordingly, our audit did not include the internal control over financial reporting at Rialco and Optitex. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2016 of the Company and our report dated February 21, 2017 expressed an unqualified opinion on those financial statements and financial statement schedule.

/s/ DELOITTE & TOUCHE LLP
San Jose, California
February 21, 2017

Item 9B: Other Information

None.

PART III

Item 10: Directors, Executive Officers and Corporate Governance

Information regarding our directors is incorporated by reference from the information contained under the caption "Election of Directors" in our Proxy Statement for our 2017 Annual Meeting of Stockholders (the "2017 Proxy Statement"). Information regarding our current executive officers is incorporated by reference from information contained under the caption "Executive Officers" in our 2017 Proxy Statement. Information regarding Section 16 reporting compliance is incorporated by reference from information contained under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" in our 2017 Proxy Statement. Information regarding the Audit Committee of our Board of Directors and information regarding an Audit Committee financial expert is incorporated by reference from information contained under the caption "Meetings and Committees of the Board of Directors" in our 2017 Proxy Statement. Information regarding our code of ethics is incorporated by reference from information contained under the caption "Meetings and Committees of the Board of Directors" in our 2017 Proxy Statement. Information regarding our implementation of procedures for stockholder nominations to our Board of Directors is incorporated by reference from information contained under the caption "Meetings and Committees of the Board of Directors" in our 2017 Proxy Statement.

We intend to disclose any amendment to our code of ethics, or waiver from, certain provisions of our code of ethics as applicable for our directors and executive officers, including our principal executive officer, principal financial and accounting officer, chief accounting officer and controller, or persons performing similar functions, by posting such information on our website at www.efi.com.

Item 11: Executive Compensation

The information required by this item is incorporated by reference from the information contained under the captions "Compensation Discussion and Analysis" and "Executive Compensation" in our 2017 Proxy Statement.

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

Other than information regarding securities authorized for issuance under equity compensation plans, which is set forth below, the information required by this item is incorporated by reference from the information contained under the caption "Security Ownership" in our 2017 Proxy Statement.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table sets forth information as of December 31, 2016 concerning securities that are authorized under equity compensation plans:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column 1)
Equity compensation plans approved by stockholders	2,399,075	$13.86[1]	4,081,835[2]
Equity compensation plans not approved by stockholders	—	—	—
Total	2,399,075	$13.86	4,081,835

(1) Calculated without taking into account 2,083,075 RSUs that will become issuable as those units vest, without any cash consideration or other payment required for such shares.

(2) Includes 1,660,761 shares available under the 2009 Plan, 1,234,744 treasury shares available due to net share settlement, and 1,186,330 shares available under the ESPP.

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

The information required by this item is incorporated by reference from the information contained under the caption “Certain Relationships and Related Transactions, and Director Independence” in our 2016 Proxy Statement.

Item 14: Principal Accountant Fees and Services

The information required by this item is incorporated by reference from the information contained under the caption “Principal Accountant Fees and Services” in our 2016 Proxy Statement.

PART IV

Item 15: Exhibits and Financial Statement Schedules

(a) Documents Filed as Part of this Report

(1) Index to Financial Statements

The Financial Statements required by this item are submitted in Item 8 of this Annual Report on Form 10-K as follows:

(2) Financial Statement Schedule

(All other schedules are omitted because of the absence of conditions under which they are required or because the necessary information is provided in the consolidated financial statements or notes thereto in Item 8 of this Annual Report on Form 10-K.)

(3) Exhibits

Exhibit No.	Description
3.1	Amended and Restated Certificate of Incorporation
3.2	Amended and Restated By-Laws of Electronics For Imaging, Inc., (as amended August 12, 2009) (1)
4.1	Specimen Common Stock Certificate of the Company (2)
4.2	Indenture (including Form of Notes) with respect to the Company's 0.75% Convertible Senior Notes due 2019, dated as of September 9, 2014, between the Company and U.S. Bank National Association, as trustee (14)
10.1*	Agreement dated December 6, 2000, by and between Adobe Systems Incorporated and the Company (3)
10.2*	Electronics For Imaging, Inc. 2009 Equity Incentive Award Plan Stock Option Grant Notice and Stock Option Agreement (1)
10.3*	Electronics For Imaging, Inc. 2009 Equity Incentive Award Plan Restricted Stock Unit Award Grant Notice and Restricted Stock Unit Award Grant Agreement (1)
10.4*	Electronics For Imaging, Inc. 2009 Equity Incentive Award Plan Restricted Stock Award Grant Notice and Restricted Stock Award Grant Agreement (1)
10.5*	Electronics For Imaging, Inc. 2009 Equity Incentive Award Plan (4)
10.6*	Form of Indemnification Agreement (2)
10.7*	Form of Indemnity Agreement (5)
10.8+	OEM Distribution and License Agreement dated September 19, 2005 by and among Adobe Systems Incorporated, Adobe Systems Software Ireland Limited and the Company, as amended by Amendment No. 1 dated as of October 1, 2005 (6)
10.9+	Amendment No. 2 to OEM Distribution and License Agreement by and among Adobe Systems Incorporated, Adobe Systems Software Ireland Limited and the Company, effective as of October 1, 2005 (7)
10.10+	Amendment No. 4 to OEM Distribution and License Agreement by and among Adobe Systems Incorporated, Adobe Systems Software Ireland Limited and the Company, effective as of January 1, 2006 (8)
10.11	Purchase and Sale Agreement between Electronics for Imaging, Inc. and John Arrillaga Survivor's Trust, represented by John Arrillaga, Trustee, and Richard T. Peery Separate Property Trust, represented by Richard T. Peery, Trustee, dated April 19, 2013 (9)
10.12	Lease Agreement between Electronics for Imaging, Inc. and John Arrillaga Survivor's Trust, represented by John Arrillaga, Trustee, and Richard T. Peery Separate Property Trust, represented by Richard T. Peery, Trustee, dated April 19, 2013 (9)
10.13*	EFI 2016 Bonus Program (10)
10.14*	EFI 2016 Performance Accelerator Bonus Program (10)
10.15*	Employment Agreement Effective January 27, 2014 by and between the Company and Guy Gecht (11)
10.16*	Employment Agreement Effective April 22, 2015 by and between the Company and Marc Olin (12)

Exhibit No.	Description
10.17	Form of Call Option Confirmation relating to the Company's 0.75% Convertible Senior Notes due 2019 (13)
10.18	Form of Warrant Confirmation relating to the Company's 0.75% Convertible Senior Notes due 2019 (13)
12.1	Computation of Ratios of Earnings to Fixed Charges
21	List of Subsidiaries
23.1	Consent of Deloitte & Touche LLP, Independent Registered Public Accounting Firm
24.1	Power of Attorney (see signature page of this Annual Report on Form 10-K)
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Chief Executive Officer Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and Chief Financial Officer Certification pursuant to 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 Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

*	Management contracts or compensatory plan or arrangement

\+	The Company has received confidential treatment with respect to portions of these documents

(1) Filed as an exhibit to the Company's Current Report on Form 8-K filed on August 17, 2009 and incorporated herein by reference.

(2) Filed as an exhibit to the Company's Registration Statement on Form S-1 (No. 33-50966) and incorporated herein by reference.

(3) Filed as an exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2000 (File No. 18805) and incorporated herein by reference.

(4) Filed as an exhibit to the Company's Current Report on Form 8-K filed on June 6, 2013 (File No. 18805) and incorporated herein by reference.

(5) Filed as an exhibit to the Company's Current Report on Form 8-K filed on February 15, 2008 (File No. 18805) and incorporated herein by reference.

(6) Filed as an exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2005 (File No. 18805) and incorporated herein by reference.

(7) Filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2006 (File No. 18805) and incorporated herein by reference.

(8) Filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2006 (File No. 18805) and incorporated herein by reference.

(9) Filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013. (File No. 18805) and incorporated herein by reference.

(10) Filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016. (File No. 18805) and incorporated herein by reference.

(11) Filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2014. (File No. 18805) and incorporated herein by reference.

(12) Filed as an exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2015. (File No. 18805) and incorporated herein by reference.

(13) Filed as an exhibit to the Company's Current Report on Form 8-K filed on September 9, 2014 (File No. 000-18805) and incorporated herein by reference.

(b) List of Exhibits

See Item 15(a).

(c) Consolidated Financial Statement Schedule II for the years ended December 31, 2016, 2015, and 2014.

Item 16: Form 10-K Summary

None.

ELECTRONICS FOR IMAGING, INC.
Schedule II
Valuation and Qualifying Accounts

(in thousands)	Balance at beginning of period	Charged to revenue and expenses	Charged to (from) other accounts	Deductions	Balance at end of period
Year Ended December 31, 2016					
Allowance for bad debts and sales-related allowances	$21,993	$10,678	$ —	$(9,341)	$23,330
Year Ended December 31, 2015					
Allowance for bad debts and sales-related allowances	17,517	7,536	—	(3,060)	21,993
Year Ended December 31, 2014					
Allowance for bad debts and sales-related allowances	16,433	7,408	—	(6,324)	17,517

SIGNATURES

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

ELECTRONICS FOR IMAGING, INC.

February 21, 2017

By: /s/ GUY GECHT

Guy Gecht,
Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENT, that each person whose signature appears below constitutes and appoints Guy Gecht and Marc Olin jointly and severally, his attorneys-in-fact, each with the power of substitution, for him in any and all capacities, to sign any amendments to the Form 10-K Annual Report and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his substitute or substitutes, may do or cause to be done by virtue thereof.

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

Signature	Title	Date
/s/ GUY GECHT **Guy Gecht**	Chief Executive Officer, Director (Principal Executive Officer)	February 21, 2017
/s/ MARC OLIN **Marc Olin**	Chief Financial Officer (Principal Financial and Accounting Officer)	February 21, 2017
/s/ ERIC BROWN **Eric Brown**	Director	February 21, 2017
/s/ GILL COGAN **Gill Cogan**	Director	February 21, 2017
/s/ THOMAS GEORGENS **Thomas Georgens**	Director	February 21, 2017
/s/ RICHARD A. KASHNOW **Richard A. Kashnow**	Director	February 21, 2017
/s/ DAN MAYDAN **Dan Maydan**	Director	February 21, 2017

CORPORATE DIRECTORY

Stockholder Information
Independent Accounting Firm
Deloitte Touche LLP
San Jose, California

Listing
Electronics For Imaging, Inc. is listed
on the NASDAQ Stock Market LLC
The trading symbol is EFII

Transfer Agent & Registrar
American Stock Transfer & Trust Company, LLC
6201 15th Avenue
Brooklyn, New York 11219
Telephone: (800) 937-5449

Annual Meeting
The annual meeting of Stockholders will
be held on June 7, 2017

Corporate & Investor Information
Please direct inquiries to:
Investor Relations
Electronics for Imaging, Inc.
6750 Dumbarton Circle
Fremont, California 94555
Telephone: (650) 357-3828
Facsimile: (650) 357-3907
Web site: www.efi.com

Corporate Officers

Guy Gecht
Chief Executive Officer and President

Marc Olin
Chief Financial Officer

Board of Directors

Gill Cogan (1)(2)
Chairman of the Board of the Company
Founding Partner,
Opus Capital Ventures LLC

Guy Gecht
Chief Executive Officer and President of the Company

Eric Brown (3)
Self-Employed

Thomas Georgens (3)
Self-Employed

Richard A. Kashnow (2)(3)
Consultant, Self-Employed

Dan Maydan (1)(2)
Retired

(1) Member of the Compensation Committee
(2) Member of the Nominating and Governance Committee
(3) Member of the Audit Committee