

# TESSERA TECHNOLOGIES INC

## FORM 10-K (Annual Report)

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 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, 2015

OR

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

Commission File Number: 000-50460

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

Delaware  
(State or Other Jurisdiction of  
Incorporation or Organization)  
  
3025 Orchard Parkway, San Jose, California  
(Address of Principal Executive Offices)

16-1620029  
(I.R.S. Employer  
Identification No.)  
  
95134  
(Zip Code)

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

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

Title of each class  
Common stock, par value \$0.001 per share

Name of each exchange on which registered  
The NASDAQ Global Select Market

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

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange 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 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 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. (Check one):

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

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

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant as of June 30, 2015 was \$1,964,222,484 (based on the closing sale price of the registrant's common stock as reported on The NASDAQ Global Select Market).

The number of shares outstanding of the registrant's common stock as of January 28, 2016 was 50,305,378

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the registrant's Proxy Statement for the registrant's 2016 Annual Meeting of Stockholders will be filed with the Commission within 120 days after the close of the registrant's 2015 fiscal year and are incorporated by reference in Part III.

**TESSERA TECHNOLOGIES, INC.**  
**ANNUAL REPORT ON FORM 10-K**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**  
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## Cautionary Statement Regarding Forward-Looking Statements

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

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

### **Item 1. Business Corporate Information**

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

Tessera, the Tessera logo, FotoNation, the FotoNation logo, Ziptronix, the Ziptronix logo, DigitalAperture, FaceTools, FacePower, FotoSavvy, IrisCam, LifeFocus, Invensas, the Invensas logo, xFD, FD, DFD, TFD, QFD, BVA, ZiBond and DBI are trademarks or registered trademarks of the Company or its affiliated companies in the U.S. and other countries. All other company, brand and product names may be trademarks or registered trademarks of their respective companies.

In this Annual Report, the “Company,” “we,” “us” and “our” refer to Tessera Technologies, Inc., which operates its business through its subsidiaries. Unless specified otherwise, the financial results in this Annual Report are those of the Company and its subsidiaries on a consolidated basis.

### **Overview**

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

Tessera, Inc.'s research and development led to significant innovations in semiconductor packaging technology. Semiconductor packaging creates the mechanical and electrical connection between semiconductor chips and systems such as computers and communication equipment, often via connection to printed circuit boards. We patented these innovations, often referred to as chip-scale packaging, which were widely adopted in the electronics industry. The wave of adoption was initially led by Intel Corporation, and over time, many semiconductor companies and outsourced assembly and test companies adopted the technology and entered into license agreements with Tessera, Inc.

Invensas Corporation, founded in 2011, is a wholly owned subsidiary of Tessera Technologies, Inc. that develops novel semiconductor packaging and interconnect technologies for memory, mobile, computing and smart object applications. For these applications, Invensas innovates in three primary areas: (i) DRAM and Flash memory, (ii) mobile processors, and (iii) 3D-IC assemblies. Invensas engineering teams develop and prototype these technologies in extensive assembly and test laboratories, as well as performing full product reliability testing and acceptance testing. By building collaborative partnerships with world-class manufacturing companies and high-volume equipment and materials suppliers, Invensas then licenses these technology solutions to original equipment manufacturers ("OEMs"), original design manufacturers ("ODMs"), integrated device manufacturers ("IDMs"), and outsourced assembly and test (OSATs) providers, and supports the technology transfer at the customer-designated sites.

Within each of these three Invensas sub-portfolios (memory, mobile, and 3D-IC), Invensas has created specific product solutions that address critical needs in the market. For example, Invensas innovates in the 3D-IC space. 3D-IC, which includes Through-Silicon Vias, is widely expected to be the next major inflection in semiconductor packaging and is applicable to multiple markets, including networking, data storage, computing and mobility. In August of 2015, we augmented our 3D-IC portfolio with the acquisition of Ziptronix, Inc., a leading developer of emerging low temperature wafer bonding technologies, which are targeted at the image sensors, DRAM, MEMS, RF and 2.5D logic markets. BVA (Bond Via Array), one of the Invensas mobile packaging solutions, addresses the need for small form factor, high bandwidth, low power and low cost in mobile devices, and Invensas with its partners is working to complete technology qualification to support mass adoption. Finally, xFD, an Invensas multi-chip DRAM technology, was designed to provide some of the benefits of 3D-IC DRAM by connecting multiple single-chip DRAMs, and it has gained interest with OEMs and DRAM manufacturers.

FotoNation Limited, which is comprised of world-class image scientists as well as software and hardware engineers, continues to innovate in product and system-level imaging technologies. FotoNation licenses its software solutions and technologies for mobile imaging, including the following solutions:

- FaceTools provides face-oriented imaging technology such as face detection and tracking, smile and blink detection, red-eye removal, face recognition, and face beautification. Implementing these algorithms using our hardware acceleration technology results in enhanced performance for both video and still images and sharply reduced power requirements.
- Face beautification enables users to enhance portraits (still and video) automatically with features such as skin toning, face slimming, eye brightening, and teeth whitening.
- FotoSavvy is a solution that assists and guides smartphone camera users who are untrained in photography to produce professional-quality, DSLR-like pictures from the camera-phone.
- FacePower enables the camera of a smartphone to act as a low-power sensor, reducing battery power consumption in the sensor by processing the images using sophisticated, computational analysis. It saves additional power by switching on only when a user looks at the screen. In addition, high-dynamic range (HDR) capabilities enable users to capture quality images across a wide range of lighting conditions, including bright lights or sunshine.
- Panorama enables users to create panoramic images easily and automatically in a single step without need for a PC or editing software.
- Image stabilization corrects for motion blur and shake induced during video capture.

In addition to providing technology and solutions to the mobile phone market, FotoNation provides best in class hardware-accelerated imaging/vision solutions targeted to other emerging markets including biometrics, automotive, surveillance and smart objects (electronic objects that respond to their external environment).

Our operations underwent many changes during 2013 and 2014. The following restructuring and other activities have occurred:

- In 2013, we sold our Micro-Optics business based in Charlotte, North Carolina. Originally purchased in 2006, this business focused on diffractive optical elements, refractive optical elements, and integrated micro-optic sub-assemblies. All

assets of this business were sold during the 2013 sale except for the related land and building and certain fabrication assets. We retained those assets and leased them to the buyer until they were sold in August of 2014.

- In 2013, we closed our leased manufacturing facility in Zhuhai, China (the "Zhuhai Facility") and consolidated our manufacturing capabilities into Taiwan. By closing the Zhuhai Facility, our strategy was to no longer supply the whole camera module. Our primary focus was developing the mems|cam actuator, the imaging software and user applications, and manufacturing and supplying only the lens barrel. As a result of this closure, certain assets in the Zhuhai Facility were considered impaired or written off entirely. The assets of this facility were either sold or transferred to our mems|cam manufacturing operations in Taiwan.

- In January 2014, we announced the cessation of all mems|cam manufacturing operations. As part of these efforts, we are no longer operating facilities in Arcadia, California, Rochester, New York, Hsinchu, Taiwan and Japan. As a result of these actions, certain assets were impaired or were written off entirely and restructuring and other charges were taken in 2013 and the first half of 2014. All material assets of these operations were sold or licensed to a third party in December 2014.

In this document, the operations and financial results of these operations are considered discontinued operations. For further discussion of these transactions, see Note 6 - " *Discontinued Operations* ", Note 9 - " *Goodwill and Identified Intangible Assets* " and Note 16 - " *Restructuring, Impairment of Long-Lived Assets and Other Charges and Gain on Sale of Patents* " in the Notes to Consolidated Financial Statements.

As a result of the actions noted above, during the first quarter of 2014, we determined that we operate our business in one operating segment, focused on the monetization of intellectual property, both internally developed and acquired, through royalties, licenses and other means. Previously, we operated in two operating segments - Intellectual Property and DigitalOptics. All financial results and discussions below relate to continuing operations unless otherwise specified and conform to our determination that we now operate in a single operating segment.

### **Customers**

Our technologies have been licensed to more than 100 companies. These customers include Intel Corporation, LG Electronics, Micron Technology, Inc., Samsung Electronics Co. Ltd, Shenzhen O-Film Tech Co., LTD, SK hynix Inc. and Sony Corporation, among others.

### **Sales and Marketing**

Our sales activities focus primarily on developing direct relationships at the technical, marketing and executive management levels. Product marketing focuses on identifying the needs and product requirements of our customers. Product marketing also manages the development of all of our technologies throughout the development cycle and creates the required marketing materials to assist with the adoption of the technologies.

### **Research & Development**

Our research and development groups work closely with our sales and marketing groups, as well as our customers and partners, to bring our technologies to market in a timely, high-quality and cost efficient manner. As of December 31, 2015, we employed 180 engineers and technologists devoted to semiconductor packaging, other semiconductor technologies and imaging technologies. Research and development and other related costs totaled approximately \$32.2 million, \$32.3 million and \$28.1 million for the years ended December 31, 2015, 2014 and 2013, respectively.

### **Intellectual Property Portfolio**

As of December 31, 2015, we owned approximately 4,036 patents and patent applications, comprised of approximately 2,255 United States patents and patent applications and approximately 1,781 foreign patents and patent applications. The expiration dates of our issued patents range from 2016 to 2034.

We evaluate intellectual property portfolios for purchase in the fields of advanced semiconductor packaging, circuitry technologies, and related fields. Our evaluation criteria for patent acquisitions include, for example: the sales and profitability of the relevant products, our view of the prospects of the market for the relevant products, size of the portfolio, legal criteria and our assessment of the likelihood of obtaining negotiated licenses.

## Strategy

Our strategy consists primarily of two initiatives:

- licensing our semiconductor packaging, circuitry, and interconnect technologies from Invensas and our Tessera, Inc. subsidiary to semiconductor companies and OSATs.
- licensing our FotoNation image processing products to OEMs and platform providers.

For our semiconductor business, we invest in the development of new advanced packaging and interconnect technologies to enable the next generation of mobile, consumer and computing products. Leveraging our extensive design, simulation and prototyping capability, we partner with leaders throughout the semiconductor ecosystem to develop, demonstrate, optimize and commercialize our technologies. As a component of our commercialization effort, we transfer our technologies to customer-selected manufacturing sites and OSATs.

In addition, we have developed significant capabilities in the technical analysis of intellectual property and its embodiment in commercial products. We generally encourage customers to broaden their adoption of (and license to) our array of innovative technologies in conjunction with licensing patented technologies from us.

To increase the likelihood that our technologies are adopted, we lead with technology and then seek to negotiate reasonable royalties for our patented inventions.

Successful negotiation of these royalties is generally dependent on

- Explaining the benefits of new technology, including any size, power and performance benefits;
- Explaining the value proposition over existing or alternative technologies;
- Explaining the manufacturability of the technologies;
- Countering bias against externally developed solutions; and
- Providing technical and market data supporting the royalties we are seeking.

Although we are engaged with and have licensed our technologies to many semiconductor companies, some of the companies that use our patented technologies have nonetheless chosen not to enter into license agreements with us. Consequently, we have necessarily developed significant abilities to plan, to execute, and to sustain litigation activities. We view litigation as a tool to be used only when necessary and only when other business approaches have failed. Although we have settled a substantial majority of our outstanding litigation over the past several years, if we are unable to secure license agreements on favorable terms through negotiations, we might have to file new litigation to enforce our rights. See Part 1, Item 3- *Legal Proceedings*. We believe that holding a significant cash and cash equivalents position is essential to maintaining the credibility of our litigation capabilities.

In our FotoNation image processing business, we have ongoing investment in world-class R&D supported by strong relationships with key OEMs and platform providers in consumer electronics. We have an assortment of powerful products and technologies, which we demonstrate to prospective customers to develop their interest in licensing those offerings from us. By combining proprietary hardware design with software development, we aim to offer advantages in both processing speed and low power, providing distinctive features to battery-powered devices, such as smartphones. We license our hardware designs to customers who, in turn, typically embed the hardware as modules within a larger chip. Our software typically runs on a microprocessor with capabilities that are augmented by our hardware within a customer's system.

Image processing integrates several advanced engineering and scientific disciplines, and the resulting products are of interest in a broad variety of application domains, ranging from cellphones to automotive, biometrics, photography, drones, robotics, and others. As such, we continue our ongoing development of strong technical and business relationships with both current and prospective customers across these diverse industries. Those customer relationships provide not only a source of ongoing and growing revenue but also insights into industry trends that help us build desirable products. We are aggressive in continuing to invent new technologies for image processing and object recognition, while staying apprised of potentially relevant technical advances from elsewhere.

## Competition

We compete with internal design groups at semiconductor manufacturers, assemblers, and electronic component and system manufacturers, who may create their own packaging solutions that compete with our technologies that we license. We also face a form of competition known as royalty stacking. Royalty stacking refers to situations in which a single product potentially infringes on many patents, and thus may bear multiple royalty burdens. Our customers' willingness and ability to pay reasonable royalties is, in part, affected by the number of patents infringed by a particular customer product, the concentration of the holders of those patents, the customer's cost of licensing those patents, and the profitability of the infringing product. We

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also compete with other firms in acquiring patent portfolios or partnering with owners of patent portfolios. The key competitive factors include financial resources and willingness to pay, experience in patent licensing, reputation as a licensor, litigation history, and licensing strategy for the subject portfolio.

The FotoNation image processing technologies such as Face Detection and our other imaging products compete with other image processing software vendors such as ArcSoft, Inc. as well as internal design groups of our customers providing similar technologies by employing different approaches. We also expect to see other competing technologies emerge.

### Employees

As of December 31, 2015, we had 264 employees, with 180 in research and development (including employees who perform engineering, assembly and design services under our service agreements with third parties) and 44 in general administration, including general management, legal, human resources, information technology, finance and accounting, and 40 in sales, marketing and licensing. We have never had a work stoppage among our employees and no personnel are represented under collective bargaining agreements. We consider relations with our employees to be good.

### Customer Concentration

All of our revenues are denominated in U.S. dollars. The following table sets forth revenues generated from customers comprising 10% or more of total revenues for the periods indicated:

	Years Ended December 31,		
	2015	2014	2013
Samsung Electronics	19%	24%	11%
Micron Technology, Inc.	15%	*%	*%
Amkor Technology, Inc.	14%	*%	*%
SK hynix Inc.	13%	11%	26%
Powertech Technology Inc.	*%	34%	*%
Sony Corporation	*%	*%	18%

\* denotes less than 10% of total revenues.

A significant portion of our revenues are derived from customers headquartered outside of the U.S., principally in Asia, and we expect these revenues will continue to account for a significant portion of total revenues in future periods. The table below lists the geographic regions of the headquarters of our customers and the percentage of revenues derived from each region for the periods indicated:

	Years Ended December 31,		
	2015	2014	2013
Taiwan	21%	36%	2%
Korea	32%	35%	37%
U.S.	36%	14%	25%
Japan	3%	4%	29%
Other Asia	6%	10%	6%
Europe and other	2%	1%	1%

See Note 15— “*Segment and Geographic Information*” in the Notes to Consolidated Financial Statements for additional geographic information about our revenues and long-lived assets.

The international nature of our business exposes us to a number of risks, including, but not limited to:

- laws and business practices favoring local companies;
- increased tax rates and withholding tax obligations on license revenues in non-U.S. jurisdictions that we may not be able to offset fully against our U.S. tax obligations;
- difficulties in enforcing U.S. judgments and orders against foreign persons and products made overseas; and



- less effective protection of intellectual property than is afforded in the U.S. or other developed countries.

#### **Available Information**

Our Internet address is [www.tessera.com](http://www.tessera.com) where we make available, free of charge, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Our SEC reports can be accessed through the investor relations section of our website. The information found on our website is not incorporated into this or any other report we file with or furnish to the SEC.

#### **Item 1A. Risk Factors**

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

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

We earn a significant amount of our revenues from a limited number of customers. For the years ended December 31, 2015, 2014 and 2013, there were four, three and three customers, respectively, that each accounted for 10% or more of total revenues. We expect that a significant portion of our revenues will continue to come from a limited number of customers for the foreseeable future. If we lose any of these customers, or these customers do not pay us, our revenues could decrease substantially. In addition, a significant portion of our recurring revenue is the result of structured payment terms in connection with the settlement of litigation matters, including our settlements with Amkor Technology, Inc. and Powertech Technology Inc. If we are unable to replace the revenue from an expiring license or at the end of structured payment terms of a settlement agreement with similar revenue from other customers, our royalty revenue could be adversely impacted as compared to periods prior to such expiration or the end of such payment terms.

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

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

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

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

We derive a significant portion of our revenues from licenses and royalties including structured settlement payments. The success of our licensing business depends on our ability to continue to develop and acquire high quality patent portfolios. We devote significant resources to developing new technologies and to sourcing and acquiring patent portfolios to address the evolving needs of the semiconductor and the consumer and communication electronics industries and we must continue to do so in the future to remain competitive. Developments in our technologies are inherently complex, and require long development cycles and a substantial investment before we can determine their commercial viability. Moreover, competition for acquiring high quality patent portfolios is intense and there is no assurance that we can continue to acquire such patent portfolios on favorable terms. We may not be able to develop and market new or improved technologies in a timely or commercially acceptable fashion. Furthermore, our acquired and developed patents will expire in the future. Our current U.S. issued patents expire at various times through 2034. We need to develop or acquire successful innovations and obtain revenue-generating patents on those innovations before our current patents expire, and our failure to do so would significantly harm our business, financial position, results of operations and cash flows.

**We have in the past and may in the future be involved in litigation and administrative proceedings involving some of our key patents; any invalidation or limitation of the scope of our key patents could significantly harm our business.**

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

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

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

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

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

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

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

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

From time to time we enter into license agreements that automatically convert to fully paid-up licenses upon expiration or upon reaching certain milestones. For example, Tessera, Inc.'s license agreement with Texas Instruments, Inc. automatically converted to a fully paid-up license on December 31, 2013, assuming that Texas Instruments complied with all terms and conditions of the license agreement up through its expiration. We may not receive further royalties from licensees for any licensed technology under those agreements if they convert to fully paid-up licenses because such licensees will be entitled to continue using some, if not all, of the relevant intellectual property or technology under the terms of the license agreements without further payment, even if relevant patents or technologies are still in effect. If we cannot find another source of revenue to replace the revenues from these license agreements converting to fully paid-up licenses, our results of operations following such conversion would be materially adversely affected.

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

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

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

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

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

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

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

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

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

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

We have made and will continue to make significant investments in research, development, and marketing of new technologies, products and services, including advanced semiconductor packaging. Investments in new technologies are speculative and technological feasibility may not be achieved. Commercial success depends on many factors including demand for innovative technology, availability of materials and equipment, selling price the market is willing to bear, competition and effective licensing or product sales. We may not achieve significant revenues from new product and service investments for a number of years, if at all. Moreover, new technologies, products and services may not be profitable, and even if they are profitable, operating margins for new products and businesses may not be as high as the margins we have experienced historically or originally anticipated. For example, in January 2014 we announced that we were ceasing all manufacturing efforts for our MEMS-based autofocus technologies. In conjunction with this decision, we undertook a workforce reduction of over 300 employees and we have closed or transferred to third parties our facilities in Arcadia, California, Rochester, New York, Japan and Hsinchu, Taiwan. We incurred impairment and other charges in the fourth quarter of 2013 and the first half of 2014 related to restructuring, impairment and other charges.

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

From time to time, our efforts to obtain a reasonable royalty through our sales efforts do not result in the prospective customer agreeing to license our patents or our technology. In certain cases, we use litigation to defend our patent rights, to seek payment for past infringement, and to seek future royalties for the use of our patents and technology. We also may litigate to enforce our other intellectual property rights, to enforce the terms of our license agreements, to protect our trade secrets, to determine the validity and scope of the proprietary rights of others, and to defend against claims of infringement or invalidity. Our current legal actions, as described in Part I, Item 3 - *Legal Proceedings*, are examples of disputes and litigation that impact our business. If we are not able to reach agreement with customers or potential customers we may be involved in similar legal proceedings in the future, including proceedings to ensure proper and full payment of royalties by licensees under the terms of their license agreements.

These existing and any future legal actions may harm our business. For example, legal actions could cause an existing licensee or strategic partner to cease making royalty or other payments to us, or to challenge the validity and enforceability of our patents or the scope of our license agreements, and could significantly damage our relationship with such licensee or strategic partner and, as a result, prevent the adoption of our technologies and intellectual property by such licensee or strategic partner. Litigation could also severely disrupt or shut down the business operations of our licensees or strategic partners, which in turn would significantly harm our ongoing relations with them and cause us to lose royalty revenues. Moreover, the timing and results of any of our legal proceedings are not predictable and may vary in any individual proceeding.

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

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

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

**Competing technologies may harm our business.**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

During the third quarter of 2015, we released the valuation allowance recorded primarily against Ireland deferred tax assets. We released a majority of our valuation allowance against U.S. federal deferred tax assets during the third quarter of 2014. The need for a valuation allowance requires an assessment of both positive and negative evidence when determining whether it is more likely than not that deferred tax assets are recoverable; such assessment is required on a jurisdiction-by-jurisdiction basis. In making such assessment, significant weight is given to evidence that can be objectively verified. After considering both negative and positive evidence to assess the recoverability of our net deferred tax assets during the third quarter of 2014, we determined that it was more likely than not we would realize our U.S. federal deferred tax assets. As such, we determined that no valuation allowance is required on the majority of our U.S. federal deferred tax assets. Likewise, during the third quarter of 2015, we determined that it was more likely than not we would realize Ireland deferred tax assets. In the future, we may release valuation allowance and recognize deferred state tax assets or deferred tax assets of other foreign subsidiaries depending on achieving profitability in relevant jurisdictions. We continue to monitor the likelihood that we will be able to recover our deferred tax assets, including those for which a valuation allowance is still recorded. There can be no assurance that the Company will generate profits in future periods enabling it to fully realize its deferred tax. The timing of recording a valuation allowance or the reversal of such valuation allowance is subject to objective and subjective factors that cannot be readily predicted in advance. Both the establishment of a valuation allowance and the reversal of a previously recorded valuation allowance may have a material impact on our quarterly financial results, which may lead to fluctuation in the value of our stock.

**Failure by the semiconductor industry to adopt our technology for the next generation high performance DRAM chips would significantly harm our business.**

To date, our technology has been used by several companies for high performance DRAM chips. For example, packaging using our technology is used for DDR3 and DDR4 DRAM and we currently have licensees, including SK hynix Inc., Samsung Electronics, Co., Ltd. and Micron Technology, Inc., who are paying royalties for DRAM chips in advanced packages.

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

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

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

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

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

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



- \* changes in generally accepted accounting principles including new accounting standards which may materially affect our revenue recognition; and
- \* cyclical fluctuations in semiconductor markets generally.

Due to fluctuations in our operating results, reports from market and security analysts, litigation-related developments, and other factors, the price at which our common stock will trade is likely to continue to be highly volatile. In future periods, if our revenues or operating results are below the estimates or expectations of public market analysts and investors, our stock price could decline. In the past, securities class action litigation has often been brought against companies following a decline in the market price of their securities. If our stock price is volatile, we may become involved in this type of litigation in the future. Any litigation could result in substantial costs and a diversion of management's attention and resources that are needed to successfully run our business.

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

In February 2015, we updated our capital allocation strategy. Given the change in business approach that moves us away from backward looking “episodic” payments, we discontinued the once-a-year payment of special dividends on episodic proceeds and instead announced a doubling of the current quarterly dividend to \$0.20 per share which began in March 2015. We also return capital to shareholders through stock repurchases and plan to continue repurchasing stock in future periods. We anticipate that all quarterly dividends and stock repurchases will be paid out of cash, cash equivalents and short-term investments. The payment of future cash dividends is subject to the final determination each quarter by our Board of Directors that the dividend remains in our best interests, which determination will be based on a number of factors, including our earnings, financial condition, capital resources and capital requirements, alternative uses of capital, economic condition and other factors considered relevant by management and the Board of Directors. Any decrease in the amount of the dividend, or suspension or discontinuance of payment of a dividend, could cause our stock price to decline.

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

In August 2007, we authorized a plan to repurchase our outstanding shares of common stock dependent on market conditions, share price and other factors. As of December 31, 2015, the total amount available for repurchase under the plan was \$25.9 million. In January 2016, the Board authorized an additional \$200.0 million in future repurchases under the plan.

The amount of repurchases under our stock repurchase program will vary. During 2013, we repurchased approximately 1,500,000 shares for an aggregate amount of \$28.8 million. In 2014, we repurchased approximately 2,800,000 shares for an aggregate amount of \$65.6 million. In 2015, we repurchased approximately 3,300,000 shares for an aggregate amount of \$119.2 million. Additionally, the timing of repurchases is at our discretion and the program may be suspended or discontinued at any time. Any suspension or discontinuation could cause the market price of our stock to decline. The timing of repurchases pursuant to our stock repurchase program could affect our stock price and increase its volatility. There can be no assurance that any stock repurchases will enhance stockholder value because the market price of our common stock may decline below the levels at which we effected repurchases. Furthermore, the Company may engage in mergers, acquisitions, or other activity that could result in us reducing or discontinuing share repurchases for a period of time.

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

At December 31, 2015, we held approximately \$22.6 million in cash and cash equivalents and \$359.1 million in short-term investments. These investments include various financial securities such as municipal bonds and notes, corporate bonds and notes, commercial paper, treasury and agency notes and bills, and money market funds. Although the Company invests in high quality securities, ongoing financial events have at times adversely impacted the general credit, liquidity, market and interest rates for these and other types of debt securities. Changes in monetary policy by the Federal Reserve, government fiscal policies, and global economic and market conditions may adversely affect the value of our investment portfolio. While we have historically held our investments to maturity, we may in the future have a need to sell investments before their maturity dates,

which could result in losses on the sale of those investments. The financial market and monetary risks associated with our investment portfolio may have a material adverse effect on our financial condition, results of operations and cash flows.

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

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

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

We prepare our consolidated financial statements in accordance with U.S. GAAP. These principles are subject to interpretations by the SEC and various accounting bodies. In addition, we are subject to various taxation rules in many jurisdictions. The existing taxation rules are generally complex, frequently changing and often ambiguous. Changes to taxation rules, changes to financial accounting standards such as the proposed convergence to international financial reporting standards, or any changes to the interpretations of these standards or rules may adversely affect our reported financial results or the way in which we conduct business. Recent accounting pronouncements and their estimated potential impact on our business are addressed in Note 3 - "*Recent Accounting Pronouncements*" in the Notes to Consolidated Financial Statements.

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

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

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

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

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

We have in the past expanded our operations, domestically and internationally, and may continue to do so through both internal growth and acquisitions. For example, in 2012, we acquired manufacturing capabilities in Zhuhai, China and commenced building out a manufacturing facility in Hsinchu, Taiwan, and we subsequently closed the Zhuhai, China facility in 2013 and ceased operations in our Taiwan facility in 2014. To manage our growth effectively, we must continue to improve and expand our management, systems and financial controls. We also need to continue to expand, train and manage our employee base. If we are unable to effectively manage our growth or we are unsuccessful in recruiting and retaining personnel, our business and operating results will be harmed.

From time to time, we may undertake to restructure our business, including the disposition of a business division, or the disposition or discontinuance of a product line. For example, in March 2013, we announced the planned closure of our leased manufacturing facility in Zhuhai, China; in April 2013, we announced that we were exploring a sale or other strategic alternatives for our DigitalOptics business; in August 2013, we announced the sale of a significant portion of the assets of the DigitalOptics manufacturing facility based in Charlotte, North Carolina; and in January 2014, we announced a restructuring to cease our remaining manufacturing operations, as well as the workforce reduction and facility closures in connection with the restructuring. There are several factors that could cause a restructuring, a disposition or a discontinuance to have an adverse effect on our business, financial position, results of operations and cash flows. These include potential disruption of our operations and our information technology systems, the timing of development of our technology, the deliveries of products or services to our customers, changes in our workforce and other aspects of our business. In addition, such actions may increase the risk of claims or threats of lawsuits by our customers or former employees. In the case of a disposition of a product line, there may be a risk of not identifying a purchaser, or, if identified, the purchase price may be less than the net asset book value for the product line. Employee morale and productivity could also suffer and we may lose employees whom we want to keep. Any restructuring, disposition or discontinuance would require substantial management time and attention and may divert management from other important work. There are no assurances that a restructuring, disposal or discontinuance will result in future profitability. We may also incur other significant liabilities and costs including employee severance costs, relocation expenses, and impairment of lease obligations and long-lived assets. Moreover, we could encounter delays in executing any restructuring plans, which could cause further disruption and additional unanticipated expense.

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

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

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

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

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

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

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

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

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

**Failure to comply with environmental regulations could harm our business.**

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

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

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

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

Our business operations depend on our ability to maintain and protect our facilities, computer systems and personnel. Our corporate headquarters are located in the San Francisco Bay Area, which in the past has experienced severe earthquakes. We do

not carry earthquake insurance. Earthquakes or other natural disasters could severely disrupt our operations, and have a material adverse effect on our business, results of operations, financial condition and prospects.

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

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

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

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

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

- \* These acquisitions could fail to produce anticipated benefits, or could have other adverse effects that we currently do not foresee. As a result, these acquisitions could result in a reduction of net income per share as compared to the net income per share we would have achieved if these acquisitions had not occurred. We may also be required to recognize impairment charges of acquired assets or goodwill, and if we decide to restructure acquired businesses, we may incur other restructuring charges. For example, in June 2012, we acquired a manufacturing operation in Zhuhai, China and, subsequently, this facility was closed in 2013. In January 2014, we announced a restructuring of our DigitalOptics business to cease its remaining manufacturing operations, in connection with which we incurred approximately \$49.0 million in restructuring and impairment charges in the fourth quarter of 2013.
- \* The purchase price for each acquisition is determined based on significant judgment on factors such as projected value, quality and availability of the business, technology or patent. In addition, if other companies have similar interests in the same business, technology or patent, our ability to negotiate these acquisitions at favorable terms may be limited and the purchase price may be artificially inflated.
- \* Following completion of these acquisitions, we may uncover additional liabilities, patent validity, infringement or enforcement issues or unforeseen expenses not discovered during our diligence process. Any such additional liabilities, patent validity, infringement or enforcement issues or expenses could result in significant unanticipated costs not originally estimated, such as impairment charges of acquired assets and goodwill, and may harm our financial results.
- \* The integration of technologies, patent portfolios and personnel, if any, will be a time consuming and expensive process that may disrupt our operations if it is not completed in a timely and efficient manner. If our integration efforts are not successful, our results of operations could be harmed, employee morale could decline, key employees could leave, and customer relations could be damaged. In addition, we may not achieve anticipated synergies or other benefits from any of these acquisitions.
- \* We have incurred substantial direct transaction and integration costs as a result of past acquisitions. In future acquisitions, the total direct transaction costs and the costs of integration may exceed our expectations.

- \* Sales by the acquired businesses may be subject to different accounting treatment than our existing businesses, especially related to the recognition of revenues. This may lead to potential deferral of revenues due to new multiple-element revenue arrangements.

- \* There may be a significant time lag between acquiring a patent portfolio and recognizing revenue from those patent assets. During that time lag, material costs are likely to be incurred in preparing licensing or litigation efforts that would have a negative effect on our results of operations, cash flows and financial position.

- \* We may require external financing that is dilutive or presents risks of debt.

- \* We are required to estimate and record fair values of contingent assets, liabilities, deferred tax assets and liabilities at the time of an acquisition. Even though these estimates are based on management's best judgment, the actual results may differ. Under the current accounting guidance, differences between actual results and management's estimate could cause our operating results to fluctuate or could adversely affect our results of operations.

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

In addition to internal development, we intend to broaden our intellectual property portfolio through strategic relationships and acquisitions such as the Ziptronix, Inc. acquisition completed in the third quarter of 2015. We believe these strategic relationships and acquisitions will enhance the competitiveness and size of our current businesses and diversify into markets and technologies that complement our current businesses. These acquisitions could be in the form of asset purchases, equity investments, or business combinations. As a result, we may have intangible assets which are amortized over their estimated useful lives, equity investments, in-process research and development, and goodwill. We review our amortizable intangible assets (such as our patent portfolio) for impairment when events or changes in circumstances indicate the carrying value may not be recoverable or the useful life is shorter than originally estimated. Factors that may be considered a change in circumstances indicating that the carrying value of our amortizable or other intangible assets may not be recoverable include a decline in future cash flows, fluctuations in market capitalization, slower growth rates in our industry or slower than anticipated adoption of our products by our customers. In the first quarter of 2013, we recorded an impairment of goodwill of \$6.7 million when we revised our business strategy for the DigitalOptics business to concentrate its manufacturing efforts on the lens barrel, rather than the whole camera module. This revised strategy made our leased manufacturing facility in Zhuhai, China unnecessary and the goodwill tied to the facility became impaired. We also recorded an \$8.7 million charge due to the abandonment of existing patents and technology, which caused a revision of the useful life estimate of these patent and technology assets thus fully impairing them. In the fourth quarter of 2013, we recorded an impairment of intangible assets of approximately \$7.0 million in connection with the restructuring that we announced in January 2014. As we continue to review for factors that may affect our business which may not be in our control, we may be required to record a significant charge to earnings in our financial statements during the period in which any impairment of our amortizable intangible assets or equity investments is determined, resulting in an adverse impact on our business, financial position or results of operations.

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

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

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

Various provisions of our certificate of incorporation and bylaws might have the effect of making it more difficult for a third party to acquire, or discouraging a third party from attempting to acquire, control of our company. These provisions could limit

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

**Item 1B. Unresolved Staff Comments**

Not applicable.

**Item 2. Properties**

Our principal corporate administrative, sales, marketing and research and development facilities are located in San Jose, California, and are held under an operating lease. We have research and development and marketing support facilities in Ireland and Romania that are held under operating leases. We believe our existing facilities are suitable and adequate for our current needs.

**Item 3. Legal Proceedings**

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

**Tessera, Inc. v. UTAC (Taiwan) Corporation, Civil Action No. 5:10-04435-EJD (N.D. Cal.)**

On September 30, 2010, Tessera, Inc. filed a complaint against UTAC (Taiwan) Corporation (“UTAC Taiwan”) in the U.S. District Court for the Northern District of California. Tessera, Inc.’s complaint alleges causes of action for breach of contract, declaratory relief, and breach of the implied covenant of good faith and fair dealing. The complaint seeks, among other things, a judicial determination and declaration that UTAC Taiwan remains contractually obligated to pay royalties to Tessera, Inc., an accounting and restitution in an amount to be determined at trial, and an award of damages in an amount to be determined at trial, plus interest on damages, costs, disbursements, attorneys’ fees, and such other and further relief as the Court may deem just and proper. On April 19, 2012, Tessera, Inc. filed an amended complaint against UTAC Taiwan seeking the same relief as the original complaint. On May 22, 2012 UTAC Taiwan filed its answer and counterclaim to Tessera, Inc.’s amended complaint. Tessera, Inc. filed its reply to UTAC’s counterclaim, asserting affirmative defenses, on June 21, 2012.

In July 2013, both Tessera, Inc. and UTAC Taiwan filed cross motions for partial summary judgment concerning an issue of contract interpretation. On April 1, 2014 the Court issued an order granting UTAC Taiwan’s motion and denying Tessera, Inc.’s motion, and the case has proceeded under the contract interpretation ordered by the Court. On December 1, 2014, UTAC Taiwan filed another motion for partial summary judgment on a contract interpretation issue, concerning the geographic scope of UTAC Taiwan’s royalty obligation under the parties’ license agreement. The Court denied UTAC Taiwan’s motion.

The Court issued its claim construction ruling on November 30, 2015. Fact discovery closed on May 8, 2015 and expert discovery closed on July 17, 2015.

On January 7, 2016 UTAC Taiwan filed another motion for summary judgment, addressing a variety of issues including alleged non-infringement, invalidity, patent misuse, and contract matters. Tessera, Inc. filed a cross-motion for summary judgment on January 21, 2016. The summary judgment hearing will take place on February 25, 2016.

Under the current schedule, trial is scheduled to begin on April 5, 2016. The Court has indicated that the trial may be postponed until later in 2016 due to a scheduling conflict. The trial schedule will be addressed at the February 25, 2016 hearing.

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

On May 12, 2015, Tessera, Inc. filed a complaint against Toshiba Corporation (“Toshiba”) in California Superior Court, in Santa Clara County. Tessera, Inc.’s complaint alleges causes of action for breach of contract, breach of the implied covenant of

good faith and fair dealing, and declaratory relief, generally alleging that Toshiba underpaid royalties and failed to cooperate with audits conducted pursuant to the parties' license agreement.

On June 8, 2015, Toshiba removed the action to the U.S. District Court for the Northern District of California.

On June 18, 2015, Toshiba filed its answer, affirmative defenses, and counterclaims to Tessera, Inc.'s complaint. Toshiba alleges counterclaims for declaratory judgment and breach of the implied warranty of good faith and fair dealing. The counterclaims seek, among other things, judicial determinations about the interpretation of the parties' agreement, termination of the agreement, an accounting of the amount of alleged overpayments by Toshiba, restitution, and damages. On July 10, 2015, Tessera, Inc. filed its answer and affirmative defenses to Toshiba's counterclaims.

On October 15, 2015, the Court held an initial case management conference and established the case schedule. An initial summary judgment hearing on contract issues is scheduled for September 22, 2016. The fact discovery cutoff is October 31, 2016, and the expert discovery cutoff is January 23, 2017. A hearing on any remaining motions for summary judgment is set for March 16, 2017. Trial is scheduled to begin on June 19, 2017.

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

On December 6, 2010 Ziptronix, Inc. ("Ziptronix") filed a complaint against Omnivision Technologies, Inc. ("Omnivision"), Taiwan Semiconductor Manufacturing Corporation, Ltd. and TSMC North America Corp. (collectively, "TSMC") in the U.S. District Court for the Northern District of California. Ziptronix's complaint asserted that Omnivision and TSMC infringed Ziptronix's U.S. Patent Nos. 6,864,585, 7,037,755, 7,335,572, 7,387,944, 7,553,744, 7,807,549.

On May 4, 2011, Omnivision and TSMC filed their answers and affirmative defenses to Ziptronix's first amended complaint, and TSMC asserted counterclaims alleging that Ziptronix infringed TSMC's U.S. Patent Nos. 6,682,981, 7,307,020, 6,765,279, 7,385,835, and 6,350,694. All of these TSMC patents, except for U.S. Patent No. 6,350,694, have expired. On November 8, 2011, TSMC amended its counterclaims, and Ziptronix answered TSMC's amended counterclaims on December 9, 2011.

On April 24, 2012, Ziptronix sought leave to file a second amended complaint asserting that Omnivision and TSMC also infringed Ziptronix's U.S. Patent Nos. 7,871,898, 8,053,329, and 8,153,505. The Court granted Ziptronix leave to file its second amended complaint on August 2, 2012.

On January 22, 2014, TSMC filed a motion for summary judgment arguing that any allegedly infringing activities of TSMC do not occur in the United States and thus such activities are not subject to the U.S. patent laws. The Court granted TSMC's motion on September 30, 2014. On October 22, 2014, Omnivision filed a similar motion for summary judgment concerning certain of its allegedly extraterritorial infringing activities. The Court granted Omnivision's motion on March 2, 2015. Neither TSMC's nor Omnivision's motions for summary judgment, nor the Court's related orders, addressed substantive issues of infringement (i.e. whether TSMC's or Omnivision's products practice Ziptronix's patents), or the validity of the asserted Ziptronix patents.

Claim construction issues were fully briefed as of November 2012, and are under submission. Fact and expert discovery remain open. A case management conference is currently scheduled for March 16, 2016. No trial date has been scheduled.

**Reexamination Proceedings**

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

On February 15, 2007, Siliconware Precision Industries Co. Ltd and Siliconware USA Inc. (collectively "SPIL") filed with the U.S. Patent and Trademark Office ("PTO") a request for inter partes reexamination relating to U.S Patent No. 6,465,893. On May 4, 2007, the PTO granted the request. On February 15, 2008, the PTO issued an official action, denominated as an action closing prosecution, rejecting a number of patent claims of U.S. Patent No. 6,465,893. Following additional proceedings, a Right of Appeal Notice was issued on February 18, 2011.

Tessera, Inc. filed a Notice of Appeal on March 3, 2011, and SPIL filed a Notice of Cross Appeal on March 7, 2011. On December 21, 2012, the Patent Trial and Appeal Board issued a Decision on Appeal, affirming the Examiner's previous holding of unpatentability as to some claims, reversing the Examiner's favorable decision of patentability as to other claims by rejecting those claims on new grounds of rejection, and affirming the Examiner's favorable decision of patentability as to still other claims. On May 9, 2013, SPIL withdrew from the inter partes reexamination of U.S. Patent No. 6,465,893.



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On June 25, 2013, the Patent Trial and Appeal Board issued an Order remanding the proceeding to the Examiner for consideration of certain new evidence submitted by Tessera, Inc. On July 17, 2013, the Examiner issued a determination in which the Examiner recommended that the Patent Trial and Appeal Board maintain certain grounds of rejection in the board's December 21, 2012 Decision on Appeal as to certain claims, and recommended that the board withdraw other grounds of rejection as to certain claims.

On November 14, 2014, the Patent Trial and Appeal Board issued a decision affirming the Examiner's July 17, 2013 determinations, therefore maintaining rejections of certain of the claims subject to reexamination. On January 9, 2015, Tessera, Inc. filed an appeal of the Patent Trial and Appeal Board's November 14 decision with the U.S. Court of Appeals for the Federal Circuit. On April 5, 2015, Tessera, Inc. voluntarily moved to dismiss the appeal. On April 7, 2015, the court of appeals granted the motion and issued a mandate to the PTO confirming dismissal of the appeal.

### **European Oppositions**

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

On September 24, 2011, the EP672 Patent expired, but remains as a now-expired but unrevoked patent.

On March 7, 2014, the EPO Board of Appeals issued a formal decision in Tessera, Inc.'s favor that both reversed the Opposition Division's decision to revoke the EP672 Patent, and remanded the case for further proceedings before the Opposition Division on other reasons for opposition asserted by the opponent.

On September 17, 2014, STM, the sole remaining opponent, withdrew its opposition. On April 7, 2015 the Opposition Division indicated that it will continue the proceedings on its own motion without any opponent. Along with the summons, the Opposition Division issued a preliminary communication indicating that it is disposed to revoke the EP672 Patent. Tessera, Inc. filed a Written Submission on October 2, 2015. In response to the Written Submission, the Opposition Division issued a decision confirming the validity of the EP672 patent on December 22, 2015.

### **Insolvency Proceedings over the Estate of Qimonda AG, Local Court of Munich, Insolvency Court, File No. 1542 IN 209/09**

On January 23, 2009, Qimonda AG filed a bankruptcy petition with the Local Court of Munich, Insolvency Court. On April 1, 2009, the court opened insolvency proceedings over the estate of Qimonda AG and appointed Rechtsanwalt Dr. Michael Jaffé as the insolvency administrator.

On or about May 27, 2009, Dr. Jaffé chose non-performance of Tessera, Inc.'s license agreement with Qimonda AG under Section 103 of the German Insolvency Code and purported to terminate the license agreement. On June 12, 2009, Tessera, Inc. filed a Proof of Claim in the Qimonda AG bankruptcy alleging amounts due of approximately 15.7 million Euros. On December 2, 2009, Dr. Jaffé preliminarily contested Tessera, Inc.'s claim in full. On November 15, 2010, Dr. Jaffé acknowledged approximately 7.8 million Euros of Tessera, Inc.'s claim. The amount has been registered with the list of creditors' claims at the Local Court of Munich, Insolvency Court.

In December 2015, Tessera, Inc. sold its claim to a third party in exchange for a cash payment. This matter is now concluded.

### **Item 4. Mine Safety Disclosures**

Not applicable.

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

Our common stock is traded publicly on The NASDAQ Global Select Market under the symbol "TSRA." The price range per share is the highest and lowest bid prices, as reported by The NASDAQ Global Select Market, on any trading day during the respective quarter.

	<b>High</b>	<b>Low</b>
<b>Fiscal Year Ended December 31, 2015</b>		
First Quarter (ended March 31, 2015)	\$ 43.71	\$ 32.80
Second Quarter (ended June 30, 2015)	\$ 41.61	\$ 35.59
Third Quarter (ended September 30, 2015)	\$ 39.95	\$ 30.62
Fourth Quarter (ended December 31, 2015)	\$ 37.87	\$ 30.00
	<b>High</b>	<b>Low</b>
<b>Fiscal Year Ended December 31, 2014</b>		
First Quarter (ended March 31, 2014)	\$ 23.90	\$ 17.60
Second Quarter (ended June 30, 2014)	\$ 23.91	\$ 20.38
Third Quarter (ended September 30, 2014)	\$ 30.00	\$ 21.38
Fourth Quarter (ended December 31, 2014)	\$ 36.99	\$ 24.84

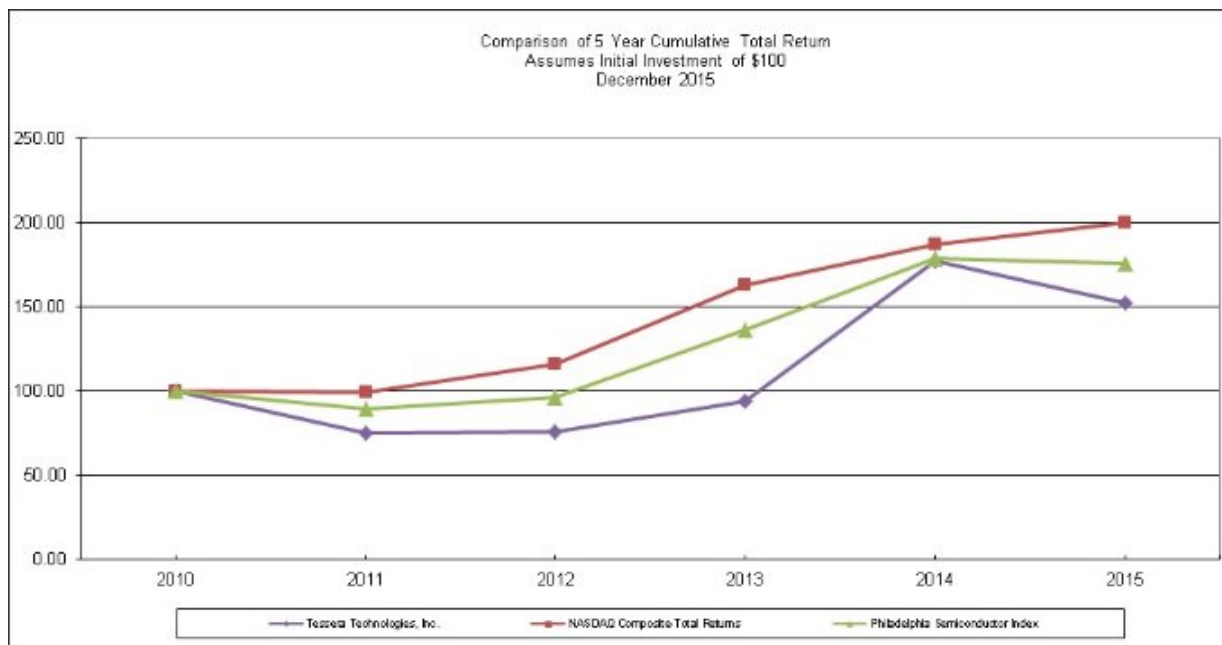
As of January 28, 2016 there were 52,305,378 outstanding shares of common stock held by 22 stockholders of record.

In February 2015, we updated our capital allocation strategy. Given the change in business approach that moves us away from backward looking “episodic” payments, we discontinued the once-a-year payment of special dividends on episodic proceeds and instead announced a doubling of the current quarterly dividend to \$0.20 per share which began in March 2015. The Company also returns capital to shareholders through stock repurchases and plans to continue repurchasing stock in future periods. We anticipate that all quarterly dividends and stock repurchases will be paid out of cash, cash equivalents and short-term investments.

In 2014, we paid quarterly dividends of \$0.10 per share in each of March 2014, May 2014, August 2014 and December 2014. In May 2014, we also paid a special dividend of \$0.52 per common share. In 2015, we paid quarterly dividends of \$0.20 per share in each of March 2015, May 2015, August 2015 and December 2015.

#### **PERFORMANCE GRAPH**

The following graphic representation shows a comparison of total stockholder return for holders of our common stock, the NASDAQ Composite Index and the Philadelphia Stock Exchange Semiconductor Index from December 31, 2010 through December 31, 2015. The graph and table assume that \$100 was invested on December 31, 2010 in each of our common stock, the NASDAQ Composite Index and the Philadelphia Stock Exchange Semiconductor Index, and that all dividends were reinvested. This graphic comparison is presented pursuant to the rules of the SEC.



	12/10	12/11	12/12	12/13	12/14	12/15
Tessera Technologies, Inc.	\$ 100.00	\$ 75.62	\$ 75.83	\$ 94.21	\$ 177.67	\$ 152.48
NASDAQ Composite	\$ 100.00	\$ 99.17	\$ 116.48	\$ 163.21	\$ 187.27	\$ 200.31
PHLX Semiconductor	\$ 100.00	\$ 89.63	\$ 96.14	\$ 136.36	\$ 179.25	\$ 176.34

This section is not “soliciting material,” is not deemed “filed” with the SEC and is not incorporated by reference in any filing of the Company under the Securities Act of 1933 or the Securities Exchange Act of 1934 (“Exchange Act”), whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.

### STOCK REPURCHASES

The following are our monthly stock repurchases for the fourth quarter of 2015, all of which were made as part of a publicly announced plan.

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of our publicly announced share repurchase program	Approximate dollar value of shares that may yet be purchased under our share repurchase program (a)
<i>(Shares in thousands)</i>				
<b>2015</b>				
October	23	\$ 32.96	23	
November	172	\$ 32.46	172	
December	581	\$ 32.55	581	
Total	776	\$ 32.58	776	\$25.9 million

(a) In August 2007, the Company's Board of Directors authorized a plan to repurchase the Company's outstanding shares of common stock dependent on market conditions, share price and other factors. No expiration date has been specified for this plan. All repurchases in the three months ended December 31, 2015 were made under this plan. In January 2016, the Board authorized an additional \$200.0 million in future repurchases under the plan.

## Item 6. Selected Financial Data

The following selected consolidated financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the related notes appearing elsewhere in this Annual Report.

	Years Ended December 31,				
	2015	2014	2013	2012	2011
(in thousands, except per share data)					
<b>Consolidated statements of operations data</b>					
Revenues:					
Royalty and license fees (1)	\$ 273,300	\$ 278,807	\$ 168,811	\$ 209,756	\$ 238,748
Total revenues	273,300	278,807	168,811	209,756	238,748
Operating expenses:					
Cost of revenues	566	384	178	1,229	3,062
Research, development and other related costs	32,181	32,270	28,063	34,706	33,784
Selling, general and administrative	43,592	47,208	62,580	71,428	62,235
Amortization expense	20,624	18,471	19,269	18,955	10,840
Litigation expense	14,135	25,116	60,310	34,018	27,470
Restructuring, impairment of long-lived assets and other charges and gain on sale of patents	—	(10,338)	4,668	267	38,950
Total operating expenses	111,098	113,111	175,068	160,603	176,341
Operating income (loss)	162,202	165,696	(6,257)	49,153	62,407
Other income and expense, net	3,432	1,550	1,208	5,668	3,005
Income (loss) before taxes from continuing operations	165,634	167,246	(5,049)	54,821	65,412
Provision for (benefit from) income taxes	48,517	(7,697)	35,860	20,086	29,054
Income (loss) from continuing operations	117,117	174,943	(40,909)	34,735	36,358
Loss from discontinued operations, net of tax	(101)	(4,489)	(144,646)	(64,960)	(55,658)
Net income (loss)	\$ 117,016	\$ 170,454	\$ (185,555)	\$ (30,225)	\$ (19,300)
Income (loss) per share:					
Income (loss) from continuing operations:					
Basic (2)	\$ 2.26	\$ 3.31	\$ (0.77)	\$ 0.67	\$ 0.71
Diluted (2)	\$ 2.23	\$ 3.27	\$ (0.77)	\$ 0.66	\$ 0.71
Loss from discontinued operations:					
Basic (2)	\$ —	\$ (0.08)	\$ (2.71)	\$ (1.25)	\$ (1.09)
Diluted (2)	\$ —	\$ (0.08)	\$ (2.71)	\$ (1.24)	\$ (1.09)
Net income (loss):					
Basic (2)	\$ 2.26	\$ 3.23	\$ (3.48)	\$ (0.58)	\$ (0.38)
Diluted (2)	\$ 2.23	\$ 3.18	\$ (3.48)	\$ (0.58)	\$ (0.38)
Cash dividends declared per share	\$ 0.80	\$ 0.92	\$ 0.70	\$ 0.30	\$ —

Weighted average number of shares used in per share calculation-basic (2)	51,802	52,819	53,346	51,977	51,082
Weighted average number of shares used in per share calculation-diluted (2)	52,586	53,563	53,346	52,250	51,443
<b>December 31,</b>					
	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>(in thousands)</b>					

**Consolidated balance sheets data:**

Cash, cash equivalents and short-term investments	\$ 381,744	\$ 434,421	\$ 359,587	\$ 442,603	\$ 492,445
Working capital	\$ 390,880	\$ 441,484	\$ 353,822	\$ 422,114	\$ 481,427
Total assets	\$ 539,352	\$ 577,123	\$ 484,753	\$ 705,102	\$ 716,526
Long-term liabilities	\$ 3,417	\$ 1,738	\$ 5,827	\$ 9,505	\$ 5,017
Total stockholders' equity	\$ 515,157	\$ 541,359	\$ 440,437	\$ 642,425	\$ 670,679

(1) Prior to 2014, revenue as part of a settlement of a patent infringement dispute from previously unlicensed parties was previously classified as past production payments, which was defined as royalty payments for the use of our intellectual property. This revenue has been reclassified and is included in "Royalty and license fees."

(2) See Note 10 of the Notes to Consolidated Financial Statements for an explanation of the methods used to determine the number of shares used to compute per share amounts.

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

*The following discussion (presented in thousands, except for percentages) should be read in conjunction with our consolidated financial statements and notes thereto.*

**Business Overview**

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

Our business underwent many changes during 2013 and 2014, as summarized under the heading "Overview" in Part I, Item 1- *Business* of this Annual Report.

In this document, the operations and financial results of the Micro-Optics business, the Zhuhai Facility and our mems|cam manufacturing operations outlined under the heading "Overview" in Part I, Item 1- *Business* of this Annual Report, will be considered discontinued operations. All other financial results, unless otherwise noted, are included in continuing operations.

**Results of Operations**

We have had significant events that have occurred over the past three years that affect the comparability of our financial statements. Key events and their financial impacts include the following:

- In January 2015, we entered into an agreement with Amkor Technology, Inc. ("Amkor") to settle all pending litigation and arbitration proceedings between Amkor and Tessera, Inc. Under the terms of the agreement, Amkor agreed to pay us a total of \$155 million comprised of sixteen equal quarterly recurring payments which commenced in the first quarter of 2015 and will continue through the fourth quarter of 2018.
- We entered into new license agreements with Samsung Electronics Co., Ltd. in 2014. In 2014 and 2015, Samsung Electronics Co., Ltd. accounted for 24% and 19%, respectively, of our total revenues.
- We entered into new license agreements with Micron Technology Inc. in 2014. In 2015, Micron Technology Inc. accounted for 15% of total revenue.
- PTI, a customer that accounted for 10% or more of total revenues for the year ended December 31, 2012, ceased making payments in 2012, which caused a substantial adverse impact to our royalty revenue in 2013. In February

2014, we announced a settlement with PTI related to our pending cases with PTI in the United States District Court for the Northern District of California. The PTI settlement was for a total of \$196 million with two payments made in 2014 totaling \$96 million and quarterly recurring payments totaling \$100 million which began in the first quarter of 2015 and will continue through the end of 2018.

- In 2014, we announced the cessation of all mems|cam manufacturing operations. As a result, we incurred approximately \$49.0 million in long-lived asset impairment and other charges related to the mems|cam operations in the fourth quarter of 2013. In addition, we incurred severance and other charges of \$9.0 million in 2014. At the end of 2014, we sold all the remaining assets for \$11.8 million in cash, which resulted in a disposal gain of \$7.5 million. All financial results of this business are included in discontinued operations.
- In 2013, we sold most of the assets of the Micro-Optics business located in Charlotte, North Carolina in exchange for \$14.9 million in cash, which resulted in a disposal gain of \$8.7 million. We incurred \$2.6 million in restructuring and impairment charges related to this action. In 2014, we sold all the remaining assets for \$7.2 million in cash. All financial results of this business are included in discontinued operations.
- In 2013, we closed our Zhuhai Facility and consolidated our manufacturing capabilities into Taiwan. We incurred \$4.1 million in restructuring and impairment charges related to this action. All financial results of this business are included in discontinued operations.

All financial results and discussions below relate to continuing operations unless otherwise specified.

### *Revenues*

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

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

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

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

	Years ended December 31,		
	2015	2014	2013
<b>Revenues:</b>			
Royalty and license fees (1)	100%	100 %	100 %
Total Revenues	100	100	100
<b>Operating expenses:</b>			
Cost of revenues	—	—	—
Research, development and other related costs	12	12	17
Selling, general and administrative	16	17	37
Amortization expense	8	7	11
Litigation expense	5	9	36
Restructuring, impairment of long-lived assets and other charges	—	(4)	3
Total operating expenses	41	41	104
Operating income (loss) from continuing operations	59	59	(4)
Other income and expense, net	1	1	1
Income (loss) from continuing operations before taxes	60	60	(3)
Provision for (benefit from) income taxes	17	(3)	21
Income (loss) from continuing operations	43	63	(24)
Loss from discontinued operations, net of tax	—	(2)	(86)
Net income (loss)	43%	61 %	(110)%

(1) Revenue as part of a settlement of a patent infringement dispute from previously unlicensed parties was previously classified as past production payments, which was defined as royalty payments for the use of our intellectual property. This revenue has been reclassified and is included in "Royalty and license fees."

The following table sets forth our revenues by year (in thousands, except for percentages):

	Years Ended December 31,		Increase/ (Decrease)	% Change
	2015	2014		
Royalty and license fees	\$ 273,300	\$ 278,807	\$ (5,507)	(2)%

The \$5.5 million or 2% decrease in revenues was due to a decrease in episodic revenue of \$98.0 million which was partially offset by an increase in recurring revenue of \$92.5 million for the year ended December 31, 2015 compared to the year ended December 31, 2014. Recurring revenue was up \$92.5 million primarily as a result of our settlement agreements with Amkor and PTI and the license agreements entered into with Micron in July 2014. The episodic revenue decrease was primarily the result of aggregate episodic payments of \$96.0 million made by PTI in the first and third quarter of 2014 in connection with Tessera, Inc.'s settlement with PTI, and an episodic payment made in connection with the execution of a license agreement in the first quarter of 2014, which was partially offset by a \$27.0 million episodic payment made by ASE in the first quarter of 2015.

#### *Cost of Revenues*

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

Cost of revenues for the year ended December 31, 2015 was \$0.6 million, as compared to \$0.4 million for the year ended December 31, 2014, an increase of \$0.2 million, or 47%. The increase related to direct labor from non-recurring engineering services associated with a contract that was signed in the fourth quarter of 2014.

#### *Research, Development and Other Related Costs*

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

Research, development and other related costs for the year ended December 31, 2015 were \$32.2 million, as compared to \$32.3 million for the year ended December 31, 2014, a decrease of \$0.1 million. The decrease was primarily related to a \$2.5 million decrease in legal costs which resulted from focusing our patent maintenance efforts in critical markets and renegotiating fees with key vendors and a \$0.4 million decrease in our operating equipment and supplies. These decreases were partially offset by a \$2.5 million increase in stock-based compensation and other personnel-related expenses.

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

#### *Selling, General and Administrative*

Selling expenses consist primarily of compensation and related costs for sales and marketing personnel, reverse engineering personnel and services, amortization of intangibles, marketing programs, public relations, promotional materials, travel, trade show expenses, and stock-based compensation expense. General and administrative expenses consist primarily of compensation and related costs for general management, information technology, finance personnel, legal fees and expenses, facilities costs, stock-based compensation expense, and professional services. Our general and administrative expenses, other than facilities related expenses, are not allocated to other expense line items. Our selling, general and administrative expenses have declined as we have implemented cost savings strategies.

Selling, general and administrative expenses for the year ended December 31, 2015 were \$43.6 million, as compared to \$47.2 million for the year ended December 31, 2014, a decrease of \$3.6 million, or 8%. The decrease was primarily attributable to a decrease of \$4.0 million in salary and benefits and stock based compensation due to our reduced headcount resulting from restructuring activities during 2014 and a \$0.9 million decrease in legal costs due to the conclusion of the O-Film transaction in 2014 and reduced patent evaluation expenses. These decreases were partially offset by a \$1.7 million increase in expenditures for market research reports.

#### *Amortization Expense*

Amortization expense for the year ended December 31, 2015 was \$20.6 million, as compared to \$18.5 million for the year ended December 31, 2014, an increase of \$2.1 million. This increase was primarily attributable to intangible assets recorded in connection with the Ziptronix acquisition in August 2015 as well as \$7.6 million in intellectual property assets acquired in 2015.

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

#### *Litigation Expense*

Litigation expense for the year ended December 31, 2015 was \$14.1 million, as compared to \$25.1 million for the year ended December 31, 2014, a decrease of \$11.0 million, or 44%. The decrease was primarily attributable to the decrease of our docket of legal proceedings, largely due to settlement activities in 2014 and early 2015.

Although our litigation expense decreased from the previous fiscal year, we expect that litigation expense may continue to be a material portion of our operating expenses in future periods, and may fluctuate significantly between periods, because of our ongoing litigation, as described in Part I, Item 3 - *Legal Proceedings*, and because of litigation that may be initiated from time to time in the future in order to enforce and protect our intellectual property and contract rights.

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

#### *Restructuring, Impairment of Long-Lived Assets and Other Charges and Gain on Sale of Patents*



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All restructuring, impairment of long-lived assets and other charges were concluded prior to 2015. The restructuring, impairment of long-lived assets and other charges for the year ended December 31, 2014 related to the restructuring of our DigitalOptics business.

#### *Stock-based Compensation Expense*

The following table sets forth our stock-based compensation expense for the years ended December 31, 2015 and 2014 (in thousands):

	Years Ended December 31,	
	2015	2014
Cost of revenues	\$ —	\$ 18
Research, development and other related costs	4,005	2,823
Selling, general and administrative	7,512	10,428
Total stock-based compensation expense	\$ 11,517	\$ 13,269

Stock-based compensation awards included employee stock options, restricted stock awards and units, and employee stock purchases. For the year ended December 31, 2015, stock-based compensation expense was \$11.5 million, of which \$2.7 million related to employee stock options, \$8.2 million related to restricted stock awards and units and \$0.6 million related to employee stock purchases. For the year ended December 31, 2014, stock-based compensation expense was \$13.3 million, of which \$3.3 million related to employee stock options, \$9.3 million related to restricted stock awards and units and \$0.6 million related to employee stock purchases. The decrease in stock based compensation expense in 2015 compared to 2014 results from performance shares awarded to executives, with lower achievement levels reached in 2015 than 2014.

Future stock-based compensation expense will vary due to volatility in our stock price, number and type of stock awards granted and timing of modifications to stock awards, if any.

#### *Other Income and Expense, Net*

Other income and expense, net for the year ended December 31, 2015 was \$3.4 million, as compared to \$1.6 million, for the year ended December 31, 2014. This increase resulted from higher interest income due to higher interest rates achieved from extending the average maturity of our portfolio and from interest rates rising in general during 2015.

#### *Provision for (benefit from) Income Taxes*

The provision for income taxes for the year ended December 31, 2015 of \$48.5 million is primarily due to tax liability generated from U.S. and foreign operations, and foreign withholding taxes, offset by the benefit from the release of valuation allowance primarily related to Ireland deferred tax assets. The benefit from income taxes for the year ended December 31, 2014 of \$7.7 million was primarily due to the release of valuation allowance on U.S. federal deferred tax assets offset by foreign withholding tax and foreign income taxes. The increase in income tax expense for the year ended December 31, 2015 as compared to the prior year is largely attributable to the significantly greater release in valuation allowance in the prior year as compared to the current year. The need for a valuation allowance requires an assessment of both positive and negative evidence when determining whether it is more likely than not that deferred tax assets are recoverable. Such assessment is required on a jurisdiction-by-jurisdiction basis. In making such assessment, significant weight is given to evidence that can be objectively verified. After considering both positive and negative evidence to assess the recoverability of our net deferred tax assets during the year 2015, we have determined that it is more likely than not we would realize certain other deferred tax assets (primarily related to Ireland deferred tax assets) given the timing of profits and forecasted profitability in succeeding years. We continue to monitor the likelihood that we will be able to recover the deferred tax assets in the future. This determination includes objectively verifiable positive evidence that outweighs potential negative evidence.

#### *Discontinued Operations*

The activity related to discontinued operations was completed prior to 2015. The loss from discontinued operations for the year ended December 31, 2014 was \$4.5 million. These activities related to our cessation of all mems|cam manufacturing operations. This was the last manufacturing operation in the DigitalOptics business. This action included a reduction of over 300 employees and the closure of facilities in Arcadia, California, Rochester, New York, Hsinchu, Taiwan and Japan. For further information about discontinued operations, see Note 6 - " *Discontinued Operations* " and Note 16 - " *Restructuring* ,

*Impairment of Long-Lived Assets and Other Charges and Gain on Sale of Patents*" in the Notes to Consolidated Financial Statements for additional details.

### Fiscal Year 2014 and 2013

The following table sets forth our revenues by year (in thousands, except for percentages):

	Years Ended December 31,		Increase/ (Decrease)	% Change
	2014	2013		
Royalty and license fees	\$ 278,807	\$ 168,811	\$ 109,996	65%

The \$110.0 million or 65% increase in revenues was due to an increase in episodic revenue of \$63.2 million and an increase in recurring revenue of \$46.8 million. The increase in episodic revenue was primarily related to payments made by PTI in connection with Tessera, Inc.'s settlement with PTI noted above. The increase in recurring revenue results from a \$39.2 million increase from new license agreements primarily with Samsung Electronics Co. Ltd. and Micron Technology, Inc. and a \$12.3 million or 113% increase in revenue from our FotoNation subsidiary resulting from new license agreements to our software products as well as growth in unit shipments under software license agreements.

#### *Cost of Revenues*

Cost of revenues for the year ended December 31, 2014 was \$0.4 million, as compared to \$0.2 million for the year ended December 31, 2013, an increase of \$0.2 million. The increase related to direct labor from non-recurring engineering services associated with a contract that was signed in the fourth quarter of 2014.

#### *Research, Development and Other Related Costs*

Research, development and other related costs for the year ended December 31, 2014 were \$32.3 million, as compared to \$28.1 million for the year ended December 31, 2013, an increase of \$4.2 million, or 15%. The increase was primarily related to an increase in salary and benefit costs and outside services, partially offset by a decrease in legal expense related to the maintenance of patents.

#### *Selling, General and Administrative*

Selling, general and administrative expenses for the year ended December 31, 2014 were \$47.2 million, as compared to \$62.6 million for the year ended December 31, 2013, a decrease of \$15.4 million, or 25%. The decrease was primarily attributable to a decrease of \$4.1 million in salary, benefit and other employee costs related to the employee reductions resulting from our restructuring activities during 2014, a decrease of \$5.5 million in outside services and a decrease of \$2.2 million in depreciation due to the impairment of fixed assets during 2013.

#### *Amortization Expense*

Amortization expense for the year ended December 31, 2014 was \$18.5 million, as compared to \$19.3 million for the year ended December 31, 2013, a decrease of \$0.8 million. The decrease was primarily related to the impairment of intangibles in 2013 (see Note 9 - " *Goodwill and Identified Intangibles Assets* " in the Notes to Consolidated Financial Statements).

#### *Litigation Expense*

Litigation expense for the year ended December 31, 2014 was \$25.1 million, as compared to \$60.3 million for the year ended December 31, 2013, a decrease of \$35.2 million, or 58%. This decrease was primarily attributable to the decrease in our docket of legal proceedings as a result of recent settlement activities.

#### *Restructuring, Impairment of Long-Lived Assets and Other Charges and Gain on Sale of Patents*

Restructuring, impairment of long-lived assets and other charges and gain on sale of patents for the year ended December 31, 2014 was a credit of \$10.3 million, as compared to an expense of \$4.7 million for the year ended December 31, 2013. This decrease was primarily attributable to a gain of \$11.9 million due to the sale of patents in December 2014 (see Note 16 –

" *Restructuring, Impairment of Long-Lived Assets and Other Charges and Gain on Sale of Patents* " in the Notes to Consolidated Financial Statements for additional details).

Our restructuring activities in 2014 and 2013 were undertaken because we exited the manufacturing portion of our business. We determined that focusing our resources on our core business of monetizing our intellectual property would bring more shareholder value.

#### *Stock-based Compensation Expense*

The following table sets forth our stock-based compensation expense for the years ended December 31, 2014 and 2013 (in thousands):

	Years Ended December 31,	
	2014	2013
Cost of revenues	\$ 18	\$ 50
Research, development and other related costs	2,823	3,591
Selling, general and administrative	10,428	9,862
Total stock-based compensation expense	\$ 13,269	\$ 13,503

Stock-based compensation awards included employee stock options, restricted stock awards and units, and employee stock purchases. For the year ended December 31, 2014, stock-based compensation expense was \$13.3 million, of which \$3.3 million related to employee stock options, \$9.3 million related to restricted stock awards and units and \$0.6 million related to employee stock purchases. For the year ended December 31, 2013, stock-based compensation expense was \$13.5 million, of which \$7.8 million related to employee stock options, \$4.3 million related to restricted stock awards and units and \$1.4 million related to employee stock purchases.

#### *Other Income and Expense, Net*

Other income and expense, net for the year ended December 31, 2014 was \$1.6 million, as compared to \$1.2 million, for the year ended December 31, 2013. Other income and expense primarily consists of interest income which was flat year over year at \$1.2 million.

#### *Provision for (benefit from) Income Taxes*

The benefit for income taxes for the year ended December 31, 2014 of \$7.7 million was primarily due to the release of our valuation allowance for federal deferred tax assets which offset the tax expense related to our 2014 pre-tax profits. The provision for income taxes for the year ended December 31, 2013 of \$35.9 million was primarily due to an increase in our valuation allowance on federal deferred taxes in 2013 as a result of the determination that it was more likely than not that the deferred tax assets would not be realized. The need for a valuation allowance requires an assessment of both positive and negative evidence when determining whether it is more likely than not that deferred tax assets are recoverable. Such assessment is required on a jurisdiction-by-jurisdiction basis. In making such assessment, significant weight is given to evidence that can be objectively verified. After considering both negative and positive evidence to assess the recoverability of our net deferred tax assets during the year 2014, we determined that it was more likely than not we would realize the full value of substantially all our federal deferred tax assets given license agreements and settlements entered into with customers during 2014 as well as cost reductions favorably impacting our profitability in 2014 and forecasted profitability in succeeding years. We continue to monitor the likelihood that we will be able to recover the deferred tax assets in the future. This determination includes objectively verifiable positive evidence that outweighs potential negative evidence.

#### *Discontinued Operations*

In 2013, we sold our Micro-Optics business located in Charlotte, North Carolina, and shut-down our camera module manufacturing facility in Zhuhai, China. In 2014, we ceased all mems|cam manufacturing operations. In 2014, and all previous periods presented, these operations are reported as discontinued operations. For further information about discontinued operations, see Note 6 – " *Discontinued Operations* " and Note 16 - " *Restructuring, Impairment of Long-Lived Assets and Other Charges and Gain on Sale of Patents* " in the Notes to Consolidated Financial Statements for additional details.

## Net Operating Losses and Tax Credit Carryforwards

As of December 31, 2015, we had federal net operating loss carryforwards of approximately \$15.0 million and state net operating loss carryforwards of approximately \$64.8 million. The federal net operating loss carryforwards are carried over from Ziptronix, Inc., acquired in 2015. The state net operating loss carryforwards are carried over from acquired entities, Siimpel Corporation in 2010 and Ziptronix, Inc. in 2015. These operating loss carryforwards, if not utilized, will begin to expire on various dates beginning in 2016, and will continue to expire through 2031. In addition, we have research tax credit carryforwards of approximately \$0.3 million for federal purposes which were carried over from Ziptronix, Inc. The federal research tax credit will start to expire in 2020 and continue to expire through 2033. We also have research tax credit carryforwards, which under current law will not expire, of approximately \$5.4 million for state purposes and \$1.3 million for foreign purposes. We have \$5.6 million of foreign tax credit carryforwards which will expire in 2023. Under the provisions of the Internal Revenue Code, substantial changes in the Company or its subsidiaries' ownership may limit the amount of net operating loss and research tax credit carryforwards that can be utilized annually in the future to offset taxable income.

### Tax Effect from Stock Options

The tax effect from the Company's employee stock option plan for the year ended December 31, 2015 is a deficiency totaling \$0.1 million. The tax effect in 2014 was a deficiency of \$2.0 million, and in 2013 there was no tax effect from the Company's employee stock option plan. The tax benefits for the excess of tax deductions over the related stock-based compensation expense recorded will create a benefit to additional paid-in capital in the year that the benefit will reduce taxes payable. The Company recorded a credit of \$0.7 million, tax-effected, to additional paid-in capital due to the realization of the windfall tax benefits in the current period.

## Liquidity and Capital Resources

(in thousands, except for percentages)	December 31,		
	2015	2014	2013
Cash and cash equivalents	\$ 22,599	\$ 50,908	\$ 73,722
Short-term investments	359,145	383,513	285,865
Total cash, cash equivalents and short-term investments	\$ 381,744	\$ 434,421	\$ 359,587
Percentage of total assets	71%	75%	74%

	Years Ended December 31,		
	2015	2014	2013
Net cash from operating activities	\$ 146,550	\$ 134,204	\$ (48,077)
Net cash from investing activities	\$ (21,286)	\$ (76,651)	\$ 47,947
Net cash from financing activities	\$ (153,573)	\$ (80,367)	\$ (29,950)

Our primary source of liquidity and capital resources is our investment portfolio. Cash, cash equivalents and short-term investments were \$381.7 million at December 31, 2015, a decrease of \$52.7 million from \$434.4 million at December 31, 2014. Cash and cash equivalents were \$22.6 million at December 31, 2015, a decrease of \$28.3 million from \$50.9 million at December 31, 2014. The decrease in cash and cash equivalents was primarily the result of \$153.6 million in cash used by financing activities and \$21.3 million net cash used in investing activities, partially offset by \$146.6 million in cash provided by operating activities.

Cash flows provided by operations were \$146.6 million for the year ended December 31, 2015, primarily due to net income of \$117.0 million, adjusted for non-cash items of deferred income tax of \$18.8 million, depreciation and amortization of \$22.2 million and stock-based compensation expense of \$11.5 million, partially offset by changes in operating assets and liabilities of \$20.3 million.

Cash flows provided by operations were \$134.2 million for the year ended December 31, 2014, primarily due to net income of \$170.5 million, adjusted for non-cash items of depreciation and amortization of \$20.3 million and stock-based compensation expense of \$13.3 million, partially offset by an increase in deferred tax assets resulting from the reversal of a reserve totaling \$44.0 million, patents acquired through settlement agreements of \$4.3 million and gain on disposal of property and equipment and other assets, net of \$19.6 million.

Cash flows used in operations were \$48.1 million for the year ended December 31, 2013, primarily due to our net loss of \$185.6 million being adjusted for non-cash items of depreciation and amortization of \$38.3 million, restructuring and impairment of \$64.7 million, impairment of goodwill of \$6.7 million, stock-based compensation expense of \$13.5 million and deferred income taxes of \$22.7 million, offset by changes in operating assets and liabilities of \$8.3 million.

Net cash used in investing activities was \$21.3 million for the year ended December 31, 2015, primarily related to the purchases of available-for-sale securities of \$298.8 million, the acquisition of Ziptronix, Inc. for \$38.6 million and the purchase of \$7.6 million in intangible assets, offset by maturities and sales of short-term investments of \$324.7 million.

Net cash used in investing activities was \$76.7 million for the year ended December 31, 2014, primarily related to purchases of short-term investments of \$301.6 million and purchases of intangible assets of \$5.6 million, offset by proceeds from maturities and sales of investments of \$203.7 million and proceeds from the sale of property and equipment and other assets of \$31.2 million. The sales of property and equipment were primarily related to the land and building used in our Micro-Optics business in Charlotte, North Carolina which was sold in August 2013. The land and building were not part of the initial sale and were, subsequently, sold in August 2014. We also sold all remaining manufacturing assets in the DigitalOptics business.

Net cash provided by investing activities was \$47.9 million for the year ended December 31, 2013, primarily related to the maturities and sales of short-term investments of \$285.6 million and proceeds from the sale of property and equipment of \$19.7 million, offset by purchases of available-for-sale securities of \$233.9 million, purchases of property and equipment of \$20.1 million and purchases of intangible assets of \$3.4 million. The sales of property and equipment were primarily related to those assets in our Micro-Optics business in Charlotte, North Carolina which was sold in August 2013, and our leased factory in Zhuhai, China, whose assets were sold as part of the closure of that facility in the second quarter of 2013. The purchases of property and equipment were primarily related to expanding the manufacturing operation in Hsinchu, Taiwan. This operation was closed as part of the restructuring of the DigitalOptics business announced in January 2014.

Net cash used in financing activities was \$153.6 million for the year ended December 31, 2015 due to stock repurchases of \$123.3 million and dividend payments of \$41.7 million, offset by \$10.7 million in proceeds due to the issuance of common stock under our employee stock option programs and employee stock purchase plans.

Net cash used in financing activities was \$80.4 million for the year ended December 31, 2014 due to stock repurchases of \$66.3 million and dividend payments of \$48.3 million, offset by \$34.3 million in proceeds due to the issuance of common stock under our employee stock option programs and employee stock purchase plans.

Net cash used in financing activities was \$30.0 million for the year ended December 31, 2013 due to dividend payments of \$37.6 million and stock repurchases of \$29.3 million, offset by \$36.9 million in proceeds due to the issuance of common stock under our employee stock option programs and employee stock purchase plans.

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

We evaluate our investments periodically for possible other-than-temporary impairment and review factors such as the length of time and extent to which fair value has been below cost basis, the financial condition of the issuer, our ability and intent to hold the security until maturity on a more likely than not basis. If declines in the fair value of the investments are determined to be other-than-temporary, we report the credit loss portion of such decline in other income and expense, on a net basis, and the remaining noncredit loss portion in accumulated other comprehensive income. For the years ended December 31, 2015, 2014 and 2013, no impairment charges with respect to our investments were recorded.

In August 2007, our Board of Directors ("the Board") authorized a plan to repurchase our outstanding shares of common stock dependent on market conditions, share price and other factors. No expiration has been specified for this plan. As of December 31, 2015, we have repurchased approximately 8.2 million shares of common stock, since the inception of the plan, at a total cost of \$224.1 million under this plan at an average price of \$27.22. As of December 31, 2015, the total amount available for repurchase was \$25.9 million. In January 2016, the Board authorized an additional \$200.0 million in future repurchases under the plan. We plan to continue to execute authorized repurchases from time to time under the plan.

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In February 2015, we updated our capital allocation strategy. Given the change in business approach that moves us away from backward looking “episodic” payments, we discontinued the once-a-year payment of special dividends on episodic proceeds and instead announced a doubling of the current quarterly dividend to \$0.20 per share which began in March 2015. The Company also returns capital to shareholders through stock repurchases and plans to continue repurchasing stock in future periods. We anticipate that all quarterly dividends and stock repurchases will be paid out of cash, cash equivalents and short-term investments.

In 2013, we paid quarterly dividends of \$0.10 per share in each of March 2013, May 2013, August 2013 and November 2013. In 2014, we paid quarterly dividends of \$0.10 per share in each of March 2014, June 2014, August 2014 and December 2014. In May 2013 and 2014, we also paid a special dividend of \$0.30 and \$0.52 per common share, respectively. In 2015, we paid quarterly dividends of \$0.20 per share in each of March 2015, June 2015, September 2015 and December 2015.

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

### Contractual Cash Obligations

	Payments Due by Period				
	Total	Less than 1 Year	1-3 Years	4-5 Years	Thereafter
	(In thousands)				
Operating lease obligations	\$ 10,566	\$ 2,317	\$ 4,501	\$ 3,748	\$ —

The amounts reflected in the table above for operating lease obligations represent aggregate future minimum lease payments under non-cancelable facility and equipment operating leases. For our facilities leases, rent expense charged to operations differs from rent paid because of scheduled rent increases. Rent expense is calculated by amortizing total rental payments on a straight-line basis over the lease term.

As of December 31, 2015, we had accrued \$2.4 million of unrecognized tax benefits in long term income taxes payable related to uncertain tax positions, and accrued approximately \$0.5 million of interest. At this time, we are unable to reasonably estimate the timing of the long-term payments or the amount by which the liability will increase or decrease over time. As a result, this amount is not included in the table above.

See Note 14 – “*Commitments and Contingencies*” of the Notes to Consolidated Financial Statements for additional detail.

### Off-Balance Sheet Arrangements

As of December 31, 2015, we did not have any off-balance sheet arrangements as defined in item 303(a)(4)(ii) of Regulation S-K.

### Critical Accounting Policies and Estimates

Management’s discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements. These financial statements have been prepared in conformity with generally accepted accounting principles (“GAAP”) in the United States which requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. By their nature, these estimates and judgments are subject to an inherent degree of uncertainty. We evaluate our estimates based on our historical experience and various other assumptions that are believed to be reasonable under the circumstances. These estimates relate to revenue recognition, the assessment of recoverability of goodwill and intangible assets, the assessment of useful lives and the recoverability of property, plant and equipment, the valuation and recognition of stock-based compensation expense, the valuation of investments, recognition and measurement of deferred income tax assets and liabilities, the assessment of unrecognized tax benefits, and others. Actual results could differ from those estimates, and material effects on our operating results and financial position may result. See Note 2—“*Summary of Significant Accounting Policies*” of the Notes to Consolidated Financial Statements for a full description of our accounting policies.

*Revenue recognition*

We derive our revenue from royalty and license fees. Revenues are recognized when there is persuasive evidence of an arrangement, delivery has occurred, the fee is fixed or determinable, and collectability of the resulting receivable is reasonably assured. Determining whether and when these criteria have been satisfied requires us to make assumptions and judgments which could have a significant impact on the timing and amount of revenue we report. For example, we recognize revenue on certain royalty agreements on a cash basis because management determines collectability is not reasonably assured. These determinations have a material impact on our operating results.

Royalty revenue is generated from a licensee's production or shipment of licensed products incorporating our intellectual property, technologies or software. Running royalties are primarily based on unit volumes shipped. Licensees generally report shipment information within 30 to 60 days following the end of the quarter. From time to time we also enter into license or settlement agreements that provide for fixed license fees, royalty payments or settlement payments. When there is no reliable basis on which we can estimate our royalty revenues prior to obtaining these reports from the licensees, we recognize royalty revenues on a one-quarter lag. Royalty revenue also includes payments resulting from periodic compliance audits of licensees, as part of a settlement of a patent infringement dispute, or judgments of license dispute.

License revenue is generated from license agreements for certain rights to our intellectual property technologies. We also derive revenue from software licenses for digital and video photography image enhancement technology. In some instances, we may enter into license agreements that involve multiple element arrangements including technology transfer, design, technical service and unspecified support. For technology and software licenses, revenue is recognized upon delivery or on a straight-line basis over the period in which the unspecified support or service is performed.

*Valuation of goodwill and intangible assets*

We make judgments about the recoverability of purchased finite-lived intangible assets whenever events or changes in circumstances indicate that impairment may exist. If such facts and circumstances exist, we assess recoverability by comparing the projected undiscounted net cash flows associated with the related asset or group of assets over their remaining lives against their respective carrying amounts. Impairments, if any, are based on the excess of the carrying amount over the fair value of those assets. If the useful life is shorter than originally estimated, we accelerate the rate of amortization and amortize the remaining carrying value over the new shorter useful life. Such changes could result in impairment charges or higher amortization expense in future periods, which could have a significant impact on our operating results and financial condition.

We perform an annual review of the valuation of goodwill in the fourth quarter, or more often if indicators of impairment exist. Triggering events for impairment reviews may be indicators such as adverse industry or economic trends, restructuring actions, lower projections of profitability, or a sustained decline in our market capitalization. Evaluations of possible impairment and, if applicable, adjustments to carrying values require us to estimate, among other factors, future cash flows, useful lives, and fair market values of our reporting units and assets. When we conduct our evaluation of goodwill, the fair value of goodwill is assessed using valuation techniques that require significant management estimates and judgment. Should conditions be different from management's last assessment, significant impairments of goodwill may be required, which would adversely affect our operating results.

In 2013, we recorded a \$6.6 million impairment charge of goodwill due to the restructuring of our DigitalOptics business. We recorded no such impairment during 2014 and 2015. Refer to Note 9— "*Goodwill and Identified Intangible Assets*" of the Notes to Consolidated Financial Statements for additional details.

*Stock-based compensation expense*

Calculating stock-based compensation expense requires the input of highly subjective assumptions, including the expected life of the options, stock price volatility, dividends and the pre-vesting option forfeiture rate. We estimate the expected life of options granted based on historical exercise patterns, which we believe are representative of future behavior. We estimate the volatility of our common stock on the date of grant based on a market-based historical volatility. The assumptions used in calculating the fair value of stock-based awards represent our best estimates, but these estimates involve inherent uncertainties and the application of management judgment. As a result, if factors change and we use different assumptions, our stock-based compensation expense could be materially different in the future. In addition, we are required to estimate the expected forfeiture rate and only recognize expense for those shares expected to vest. We estimate the forfeiture rate based on historical experience of our stock-based awards that are granted, exercised and cancelled. If our actual forfeiture rate is materially different from our estimate, stock-based compensation expense could be significantly different from what we have recorded in

the current period. See Note 12— “*Stock-Based Compensation Expense*” of the Notes to Consolidated Financial Statements for additional detail.

#### *Valuation of investments*

Our investments consist primarily of municipal bonds and notes, corporate bonds and notes, commercial paper, treasury and agency notes and bills, certificates of deposit and money market funds. We invest excess cash predominantly in high-quality investment grade marketable securities with less than three years to maturity. Our marketable securities are classified as available-for-sale and are reported at fair value, with unrealized gains and losses, net of tax, recorded in accumulated other comprehensive income (loss). Realized gains and losses, unrealized losses and declines in value determined to be other-than-temporary, if any, on available-for-sale securities are generally reported in other income and expense, net. The fair values for our securities are determined based on quoted market prices as of the valuation date, observable prices for similar assets and, in the event that observable prices for similar assets are not available, externally provided pricing models, discounted cash flow methodologies or other similar techniques. The determination of fair value when quoted market prices are not available requires significant judgment and estimation. In addition, we evaluate the investments periodically for possible other-than-temporary impairment and review factors such as the length of time and extent to which fair value has been below cost basis, the financial condition of the issuer, our intent to hold and whether we will not be required to sell the security before its anticipated recovery, on a more-likely-than-not basis. If any of these conditions and estimates change in the future, or, if different estimates are used, the fair value of the investments may change significantly and may result in other-than-temporary decline in value which could have an adverse impact on our results of operations.

#### *Accounting for income taxes*

We must make certain estimates and judgments in determining income tax expense for financial statement purposes. These estimates and judgments occur in the calculation of tax credits, tax benefits and deductions, and in the calculation of tax assets and liabilities. Significant changes to these estimates may result in an increase or decrease to our tax provision in a subsequent period.

We must assess the likelihood that we will be able to recover our deferred tax assets. If recovery is not likely on a more-likely-than-not basis, we must increase our provision for income taxes by recording a valuation allowance against our deferred tax assets. Should there be a change in our ability to recover our deferred tax assets, our provision for income taxes would fluctuate in the period of the change.

In addition, the calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations. We recognize liabilities for anticipated tax audit issues in the U.S. and other tax jurisdictions based on our estimate of whether, and the extent to which, additional tax payments are probable. If we ultimately determine that payment of these amounts is unnecessary, we reverse the liability and recognize a tax benefit during the period in which we determine that the liability is no longer necessary. This may occur for a variety of reasons, such as the expiration of the statute of limitations on a particular tax return or the completion of an examination by the relevant tax authority. We record an additional charge in our provision for taxes in the period in which we determine that the recorded tax liability is less than the expected ultimate assessment.

We account for uncertain tax positions in accordance with authoritative guidance related to income taxes. The application of income tax law is inherently complex. Laws and regulations in this area are voluminous, frequently changing and are often ambiguous. As such, we are required to make many subjective assumptions and judgments regarding our income tax exposures. Interpretations of and guidance surrounding income tax laws and regulations are subject to change over time. As such, changes in our assumptions and judgments can materially affect amounts recognized in the consolidated balance sheets and statements of operations.

Our policy is to classify accrued interest and penalties related to the accrued liability for unrecognized tax benefits in the provision for income taxes. For the years ended December 31, 2015, 2014 and 2013, we did not recognize any significant penalties or interest related to unrecognized tax benefits. See Note 13— “*Income Taxes*” of the Notes to Consolidated Financial Statements for additional detail.

#### **Recent Accounting Pronouncements**

See Note 3 – “*Recent Accounting Pronouncements*” of the Notes to Consolidated Financial Statements for a full description of recent accounting pronouncements including the respective expected dates of adoption.

#### **Item 7A. Quantitative and Qualitative Disclosures About Market Risk**



The primary objectives of our investment activities are to preserve principal and maintain liquidity while at the same time capturing a market rate of return. To achieve these objectives, we maintain our portfolio of cash, cash equivalents and investments in a variety of securities, which are subject to risks including:

*Interest Rate Risk*

The risk associated with fluctuating interest rates is generally limited to our investment portfolio. We invest in marketable securities, consisting primarily of municipal bonds and notes, corporate bonds and notes, commercial paper, treasury and agency notes and bills, which had a fair value of \$359.9 million at December 31, 2015. Our exposure to interest rate risks is limited due to the short average maturity of our holdings, which is approximately 1.2 years as of December 31, 2015. A hypothetical 1% (100 basis-point) increase in period-end interest rates along the yield curve would have resulted in a \$4.3 million decrease in the fair value of our investment positions at December 31, 2015. Conversely, a 1% (100 basis-point) decrease in interest rates to zero would have resulted in a \$1.4 million increase in the fair value of our investment portfolio. These estimates reflect only the direct impact of a change in interest rates and actual results may differ from these estimates.

*Investment Risk*

We are exposed to market risk as it relates to changes in the market value of our investments in addition to the liquidity and credit worthiness of the underlying issuers of our investments. Our investments are subject to fluctuations in fair value due to the volatility of the credit markets and prevailing interest rates for such securities. Our marketable securities, consisting primarily of municipal bonds and notes, corporate bonds and notes, commercial paper, treasury and agency notes and bills, certificates of deposit and money market funds, are classified as available-for-sale or trading securities with fair values of \$359.9 million and \$414.9 million as of December 31, 2015 and 2014, respectively. Unrealized losses, net of tax, on these investments at December 31, 2015 were approximately \$0.9 million, as compared to unrealized losses of approximately \$0.3 million at December 31, 2014. We do not hold any derivative, derivative commodity instruments or other similar financial instruments in our portfolio.

*Bank Liquidity Risk*

As of December 31, 2015, we have approximately \$21.9 million of cash in operating accounts that are held with domestic and international financial institutions. A majority of these balances are held with domestic financial institutions. These cash balances could be lost or become inaccessible if the underlying financial institutions fail or if they are unable to meet the liquidity requirements of their depositors and they are not supported by the federal government. Notwithstanding, we have not incurred any losses and have had full access to our operating accounts to date. We believe any failures of domestic and international financial institutions could impact our ability to fund our operations in the short term.

*Foreign Currency Exchange Rate Risk*

Our international sales and substantially all of our operating expenses are typically made in U.S. dollars and are generally not subjected to foreign currency exchange rate risk. Consequently, our results of operations are not subject to significant foreign exchange rate fluctuations. We do not currently hedge against foreign currency rate fluctuations.

**Item 8. Financial Statements and Supplementary Data**

Our consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of operations, stockholders' equity, comprehensive income (loss) and cash flows for each of the years in the three-year period ended December 31, 2015 are set forth in this Annual Report at Item 15(a)(1).

**SELECTED QUARTERLY FINANCIAL INFORMATION (UNAUDITED)**

The following table presents our unaudited quarterly results of operations for the eight quarters in the periods ended December 31, 2015 and 2014.

The following table should be read in conjunction with the consolidated financial statements and related notes contained elsewhere in this Annual Report. We have prepared the unaudited information on the same basis as our audited consolidated financial statements. This table includes all adjustments, consisting only of normal recurring adjustments, that we consider necessary for fair statement of our financial position and operating results for the quarters presented. Operating results for any quarter are not necessarily indicative of results for any future quarters or for a full year. We employ a calendar month-end reporting period for our quarterly reporting.

	Three Months Ended							
	Mar 31, 2014 (1)	Jun 30, 2014	Sep 30, 2014 (2)	Dec 31, 2014 (3)	Mar 31, 2015	Jun 30, 2015	Sep 30, 2015	Dec 31, 2015
(in thousands, except per share amounts)								
Revenues:								
Royalty and license fees	\$ 88,336	\$ 37,213	\$ 93,334	\$ 59,924	\$ 79,850	\$ 64,188	\$ 67,426	\$ 61,836
Total Revenues	88,336	37,213	93,334	59,924	79,850	64,188	67,426	61,836
Operating expenses:								
Cost of revenues	8	95	125	156	142	166	62	196
Research, development and other related costs	7,532	8,958	8,914	6,866	7,368	7,866	8,551	8,400
Selling, general and administrative	12,422	11,928	11,820	11,038	10,996	11,119	10,912	10,560
Amortization expense	4,603	4,570	4,599	4,699	4,696	4,691	5,186	6,051
Litigation expense	6,951	10,214	5,821	2,130	4,503	3,519	2,938	3,176
Restructuring, impairment of long-lived assets and other charges and gain on sale of patents	1,039	488	67	(11,933)	—	—	—	—
Total operating expenses	32,555	36,253	31,346	12,956	27,705	27,361	27,649	28,383
Operating income	55,781	960	61,988	46,968	52,145	36,827	39,777	33,453
Other income and expense, net	330	432	338	449	647	770	755	1,260
Income from continuing operations before taxes	56,111	1,392	62,326	47,417	52,792	37,597	40,532	34,713
Provision for (benefit from) income taxes	22,686	(1,124)	(40,357)	11,098	17,224	11,828	7,596	11,869
Income from continuing operations	33,425	2,516	102,683	36,319	35,568	25,769	32,936	22,844
Income (loss) from discontinued operations, net of tax	(12,527)	1,255	6,012	771	27	342	(437)	(33)
Net income	\$ 20,898	\$ 3,771	\$ 108,695	\$ 37,090	\$ 35,595	\$ 26,111	\$ 32,499	\$ 22,811
Earnings per share:								
Income from continuing operations:								
Basic	\$ 0.63	\$ 0.05	\$ 1.96	\$ 0.69	\$ 0.68	\$ 0.49	\$ 0.64	\$ 0.45
Diluted	\$ 0.62	\$ 0.05	\$ 1.93	\$ 0.68	\$ 0.66	\$ 0.49	\$ 0.63	\$ 0.44
Income (loss) from discontinued operations:								
Basic	\$ (0.24)	\$ 0.02	\$ 0.11	\$ 0.01	\$ —	\$ 0.01	\$ (0.01)	\$ —
Diluted	\$ (0.23)	\$ 0.02	\$ 0.11	\$ 0.01	\$ —	\$ 0.01	\$ (0.01)	\$ —
Net income:								
Basic	\$ 0.39	\$ 0.07	\$ 2.07	\$ 0.70	\$ 0.68	\$ 0.50	\$ 0.63	\$ 0.45
Diluted	\$ 0.39	\$ 0.07	\$ 2.04	\$ 0.69	\$ 0.66	\$ 0.49	\$ 0.62	\$ 0.44
Cash dividends declared per share	\$ 0.10	\$ 0.62	\$ 0.10	\$ 0.10	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.20
Weighted average number of shares used in per share calculations-basic	53,223	52,812	52,500	52,758	52,559	52,293	51,825	50,817
Weighted average number of shares used in per share calculations-diluted	53,793	53,397	53,287	53,595	53,534	53,052	52,514	51,435

<sup>1</sup> In January 2014, we announced a restructuring of our DigitalOptics segment to cease all remaining manufacturing operations. Therefore, we will no longer pursue a strategy of manufacturing and selling mems|cam products. In connection with these actions, in the fourth quarter of 2013 we impaired \$32.8 million of manufacturing equipment and \$6.5 million of intangible assets relating to the DigitalOptics operation, recorded a \$9.8 million charge for commitments relating to open purchase orders for equipment and impaired \$2.1 million of IT related assets. These charges are included in discontinued operations.

<sup>2</sup> In the third quarter of 2014, the valuation allowance of approximately \$40.0 million that was recorded against substantially all of our federal deferred tax assets was released as we concluded that the majority of these assets were now realizable.

<sup>3</sup> In connection with the O-Film transaction, we sold patents during this quarter for \$11.9 million. The proceeds for this sale are included as an offset in Restructuring, impairment of long-lived assets and other charges and gain on sale of patents.

### Other Supplementary Data

The following table presents our quarterly unaudited non-GAAP financial measures for the eight quarters in the periods ended December 31, 2015 and 2014. The non-GAAP financial measures adjust for non-cash acquired intangibles, amortization charges, acquired in-process research and development, all forms of stock-based compensation expense, restructuring, impairment of long-lived assets and other charges and related tax effects of the aforementioned adjustments. The non-GAAP financial measures also exclude the effects of FASB Accounting Standards Codification Topic 718 – Stock Compensation upon the number of diluted shares used in calculating non-GAAP earnings per share. We believe that the non-GAAP measures used in this report provide investors with important perspectives into our ongoing business performance. Our management uses these non-GAAP financial measures when evaluating our operating performance. The non-GAAP financial measures disclosed by the Company should not be considered a substitute for, or superior to, financial measures calculated in accordance with GAAP, and the financial results calculated in accordance with GAAP and reconciliations to those financial statements should be carefully evaluated. The non-GAAP financial measures used by the Company may be calculated differently from, and therefore may not be comparable to, similarly titled measures used by other companies.

	Three Months Ended							
	Mar 31, 2014	Jun 30, 2014	Sep 30, 2014	Dec 31, 2014	Mar 31, 2015	Jun 30, 2015	Sep 30, 2015	Dec 31, 2015
	(in thousands, except per share amounts)							
GAAP income from continuing operations	\$ 33,425	\$ 2,516	\$ 102,683	\$ 36,319	\$ 35,568	\$ 25,769	\$ 32,936	\$ 22,844
Adjustments to GAAP net income:								
Stock-based compensation expense:								
Research, development and other related costs	589	700	601	528	690	1,006	1,109	1,200
Selling, general and administrative	1,915	1,939	2,545	2,595	1,829	2,558	1,777	1,860
Amortization of acquired intangibles:	4,603	4,570	4,599	4,699	4,696	4,691	5,186	6,051
Restructuring, impairment of long-lived assets and other charges	1,039	488	67	(11,933)	—	—	(3,787)	—
Tax adjustments for non-GAAP items	—	—	(68,343)	1,461	(2,348)	(2,558)	(2,375)	(2,302)
Non-GAAP net income from continuing operations	\$ 41,571	\$ 10,213	\$ 42,152	\$ 33,669	\$ 40,435	\$ 31,466	\$ 34,846	\$ 29,653
Non-GAAP net income per common share - diluted	\$ 0.76	\$ 0.19	\$ 0.78	\$ 0.62	\$ 0.74	\$ 0.58	\$ 0.65	\$ 0.57
Weighted average number of shares used in per share calculation-diluted*	54,720	54,320	54,351	54,524	54,481	54,107	53,543	52,383

\* Non-GAAP diluted shares are based on the GAAP diluted shares adjusted for stock-based compensation expense and tax effect.

The following table presents our revenues as recurring and episodic revenue, consistent with how management reviews our quarterly revenues:

	Mar 31, 2014	Jun 30, 2014	Sep 30, 2014	Dec 31, 2014	Mar 31, 2015	Jun 30, 2015	Sep 30, 2015	Dec 31, 2015
Revenues:								
Recurring revenue	\$ 23,391	\$ 35,786	\$ 47,334	\$ 43,314	\$ 51,850	\$ 63,188	\$ 66,426	\$ 60,836
Episodic revenue	64,945	1,427	46,000	16,610	28,000	1,000	1,000	1,000
Total revenues	\$ 88,336	\$ 37,213	\$ 93,334	\$ 59,924	\$ 79,850	\$ 64,188	\$ 67,426	\$ 61,836

We define recurring revenue as payments made pursuant to a license agreement or other agreement that are scheduled to occur over at least one year of time. We define episodic revenue as non-recurring since it is not payable over at least one year pursuant to a contract. Episodic revenue includes non-recurring items such as engineering fees, initial license fees, back payments resulting from audits, damages awards from courts or other tribunals, and lump sum settlement payments. Although the royalty revenue reported by our licensees on a quarterly basis is generally not assured, for ease of reference, we refer to these revenues as “recurring revenue.”

We believe that presenting episodic and recurring revenue information provides both management and investors with a more complete understanding of underlying operating results and trends of established, ongoing operations, as well as results due to unique items that can obscure underlying trends. Management recognizes that the term “episodic revenue” may be interpreted differently by other companies and may not be applicable under different circumstances. We believe that these measures are

useful in assessing trends of the respective business and may therefore be a useful tool in assessing period-to-period performance trends.

Importantly, a source of episodic revenue may become a source of recurring revenue, when, for example, a company settles litigation with us by paying a settlement amount and entering into a license agreement or payment plan that calls for an initial license fee and ongoing royalty payment over several years. In that scenario, the settlement amount would be episodic revenue, as would the initial license fee, and the ongoing payments would be recurring revenue.

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

Not applicable.

**Item 9A. Controls and Procedures**

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

**Evaluation of Controls and Procedures**

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

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

**Change in Internal Control over Financial Reporting**

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

**Management's Report on Internal Control over Financial Reporting**

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

Tessera Technologies, Inc.'s management assessed the effectiveness of our internal control over financial reporting as of December 31, 2015, utilizing the criteria set forth in 2013 by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on the assessment by Tessera Technologies, Inc.'s management, we determined that Tessera Technologies, Inc.'s internal control over financial reporting was effective as of December 31, 2015. The effectiveness of Tessera Technologies, Inc.'s internal control over financial reporting as of December 31, 2015 has been audited by PricewaterhouseCoopers LLP, Tessera Technologies, Inc.'s independent registered public accounting firm, as stated in their attestation report which appears on page F-1 of this Annual Report on Form 10-K.

**Item 9B. Other Information**

Not applicable.

**Item 10. Directors, Executive Officers and Corporate Governance**

The information required by this Item 10 is hereby incorporated by reference from the information under the captions "Executive Officers," "Election of Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance" that will be contained in the Proxy Statement for our 2016 Annual Meeting of Stockholders (the "Proxy Statement").

We have adopted a written code of business conduct and ethics that applies to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons serving similar functions. The text of our code of business conduct and ethics has been posted on our website at <http://www.tessera.com>.

**Item 11. Executive Compensation**

The information required by this Item 11 is incorporated by reference from the information under the captions "Election of Directors," "Compensation Discussion and Analysis," "Compensation of Executive Officers" and "Compensation Committee Report" that will be contained in the Proxy Statement.

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

The information required by this Item 12 is incorporated by reference from the information under the captions "Equity Compensation Plan Information" and "Security Ownership of Certain Beneficial Owners and Management" that will be contained in the Proxy Statement.

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

The information required by this Item 13 is incorporated by reference from the information under the captions "Certain Relationships and Related Transactions" and "Election of Directors" that will be contained in the Proxy Statement.

**Item 14. Principal Accountant Fees and Services**

The information required by this Item 14 is incorporated by reference from the information under the caption "Ratification of Auditors" that will be contained in the Proxy Statement.

**Item 15. Exhibits and Financial Statement Schedules**

(a) Documents filed as part of this report:

	<u>Page Number</u>
(1) <b>Financial Statements</b>	
Report of Independent Registered Public Accounting Firm	F-1
Consolidated Balance Sheets	F-2
Consolidated Statements of Operations	F-3
Consolidated Statements of Comprehensive Income (Loss)	F-4
Consolidated Statements of Stockholders' Equity	F-5
Consolidated Statements of Cash Flows	F-6
Notes to Consolidated Financial Statements	F-7
(2) <b>Financial Statement Schedules</b>	
Valuation and Qualifying Accounts	S-1
(3) <b>Exhibits*</b>	

\* The exhibits listed on the accompanying Exhibits Index following the signature page to this Annual Report are filed as part of, or hereby incorporated by reference into, this Annual Report.

#### **Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholders of Tessera Technologies, Inc. :

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of Tessera Technologies, Inc. and its subsidiaries at December 31, 2015 and December 31, 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting

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included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 3 to the consolidated financial statements, the Company changed the manner in which it classifies deferred tax assets and liabilities on the consolidated balance sheet in 2015.

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

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

/s/ PricewaterhouseCoopers LLP

San Jose, California  
February 22, 2016

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

	December 31,	
	2015	2014
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 22,599	\$ 50,908
Short-term investments	359,145	383,513
Accounts receivable, net	1,784	4,478
Short-term deferred tax assets	—	19,334
Other current assets	28,130	17,277
Total current assets	<u>411,658</u>	<u>475,510</u>
Property and equipment, net	3,748	4,322
Intangible assets, net	95,089	72,925
Long-term deferred tax assets	15,649	21,759
Other assets	13,208	2,607
Total assets	<u>\$ 539,352</u>	<u>\$ 577,123</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 1,090	\$ 3,509
Accrued legal fees	2,621	4,143
Accrued liabilities	10,262	13,284
Deferred revenue	6,805	10,217
Other current liabilities	—	2,873
Total current liabilities	<u>20,778</u>	<u>34,026</u>
Long-term deferred tax liabilities	255	187
Other long-term liabilities	3,162	1,551
Commitments and contingencies (Note 14)		
Stockholders' equity:		
Preferred stock: \$0.001 par value; 10,000 shares authorized and no shares issued and outstanding	—	—
Common stock: \$0.001 par value; 150,000 shares authorized; 58,692 and 57,800 shares issued, respectively, and 50,294 and 52,840 shares outstanding, respectively	58	58
Additional paid-in capital	599,186	576,341
Treasury stock at cost; 8,398 and 4,960 shares of common stock at each period end, respectively	(229,513)	(106,231)
Accumulated other comprehensive loss	(1,437)	(333)
Retained earnings	146,863	71,524
Total stockholders' equity	<u>515,157</u>	<u>541,359</u>
Total liabilities and stockholders' equity	<u>\$ 539,352</u>	<u>\$ 577,123</u>

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



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

	Years Ended December 31,		
	2015	2014	2013
<b>Revenues:</b>			
Royalty and license fees	\$ 273,300	\$ 278,807	\$ 168,811
Total revenues	273,300	278,807	168,811
<b>Operating expenses:</b>			
Cost of revenues	566	384	178
Research, development and other related costs	32,181	32,270	28,063
Selling, general and administrative	43,592	47,208	62,580
Amortization expense	20,624	18,471	19,269
Litigation expense	14,135	25,116	60,310
Restructuring, impairment of long-lived assets and other charges and gain on sale of patents	—	(10,338)	4,668
Total operating expenses	111,098	113,111	175,068
Operating income (loss)	162,202	165,696	(6,257)
<b>Other income and expense, net</b>			
Income (loss) before taxes from continuing operations	3,432	1,550	1,208
Income (loss) before taxes from continuing operations	165,634	167,246	(5,049)
Provision for (benefit from) income taxes	48,517	(7,697)	35,860
Income (loss) from continuing operations	117,117	174,943	(40,909)
Loss from discontinued operations, net of tax	(101)	(4,489)	(144,646)
Net income (loss)	\$ 117,016	\$ 170,454	\$ (185,555)
<b>Income (loss) per share:</b>			
<b>Income (loss) from continuing operations:</b>			
Basic	\$ 2.26	\$ 3.31	\$ (0.77)
Diluted	\$ 2.23	\$ 3.27	\$ (0.77)
<b>Loss from discontinued operations:</b>			
Basic	\$ —	\$ (0.08)	\$ (2.71)
Diluted	\$ —	\$ (0.08)	\$ (2.71)
<b>Net income (loss):</b>			
Basic	\$ 2.26	\$ 3.23	\$ (3.48)
Diluted	\$ 2.23	\$ 3.18	\$ (3.48)
Cash dividends declared per share	\$ 0.80	\$ 0.92	\$ 0.70
Weighted average number of shares used in per share calculations-basic	51,802	52,819	53,346
Weighted average number of shares used in per share calculations-diluted	52,586	53,563	53,346

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

**TESSERA TECHNOLOGIES, INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
**(in thousands)**

	<b>Years Ended December 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
Net income (loss)	\$ 117,016	\$ 170,454	\$ (185,555)
Other comprehensive income (loss):			
Net unrealized gains (losses) on available-for- sale securities, net of tax	(1,104)	(466)	14
Other comprehensive income (loss)	(1,104)	(466)	14
Comprehensive income (loss)	<u>\$ 115,912</u>	<u>\$ 169,988</u>	<u>\$ (185,541)</u>

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

**TESSERA TECHNOLOGIES, INC.**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
(in thousands)

	Common Stock		Additional Paid-In Capital	Treasury Stock		Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Deficit)	Total
	Shares	Amount		Shares	Amount			
<b>Balance at December 31, 2012</b>	52,293	\$ 53	\$ 480,347	654	\$ (10,642)	\$ 119	\$ 172,548	\$ 642,425
Net loss	—	—	—	—	—	—	(185,555)	(185,555)
Other comprehensive income	—	—	—	—	—	14	—	14
Cash dividends paid on company common stock	—	—	—	—	—	—	(37,588)	(37,588)
Issuance of common stock in connection with exercise of stock options	2,031	1	33,520	—	—	—	—	33,521
Issuance of common stock in connection with employee common stock purchase plan	288	—	3,417	—	—	—	—	3,417
Issuance of restricted stock, net of shares canceled	351	1	—	—	—	—	—	1
Repurchases of common stock	(1,521)	—	(25)	1,521	(29,276)	—	—	(29,301)
Stock-based compensation expense	—	—	13,503	—	—	—	—	13,503
<b>Balance at December 31, 2013</b>	53,442	\$ 55	\$ 530,762	2,175	\$ (39,918)	\$ 133	\$ (50,595)	\$ 440,437
Net loss	—	—	—	—	—	—	170,454	170,454
Other comprehensive income	—	—	—	—	—	(466)	—	(466)
Cash dividends paid on company common stock	—	—	—	—	—	—	(48,335)	(48,335)
Issuance of common stock in connection with exercise of stock options	1,797	2	32,578	—	—	—	—	32,580
Issuance of common stock in connection with employee common stock purchase plan	137	—	1,700	—	—	—	—	1,700
Issuance of restricted stock, net of shares canceled	249	1	—	—	—	—	—	1
Repurchases of common stock, shares exchanged	—	—	—	29	(761)	—	—	(761)
Repurchases of common stock	(2,785)	—	—	2,756	(65,552)	—	—	(65,552)
Stock-based compensation expense	—	—	13,269	—	—	—	—	13,269
Tax effect from employee stock option plan	—	—	(1,968)	—	—	—	—	(1,968)
<b>Balance at December 31, 2014</b>	52,840	\$ 58	\$ 576,341	4,960	\$ (106,231)	\$ (333)	\$ 71,524	\$ 541,359
Net income	—	—	—	—	—	—	117,016	117,016
Other comprehensive loss	—	—	—	—	—	(1,104)	—	(1,104)
Cash dividends paid on company common stock	—	—	—	—	—	—	(41,677)	(41,677)
Issuance of common stock in connection with exercise of stock options	465	—	8,995	—	—	—	—	8,995
Issuance of common stock in connection with employee common stock purchase plan	77	—	1,665	—	—	—	—	1,665
Issuance of restricted stock, net of shares canceled	350	—	—	—	—	—	—	—
Repurchases of common stock, shares exchanged	(105)	—	—	105	(4,047)	—	—	(4,047)
Repurchases of common stock	(3,333)	—	—	3,333	(119,235)	—	—	(119,235)
Stock-based compensation expense	—	—	11,517	—	—	—	—	11,517
Tax effect from employee stock option plan	—	—	668	—	—	—	—	668
<b>Balance at December 31, 2015</b>	50,294	\$ 58	\$ 599,186	8,398	\$ (229,513)	\$ (1,437)	\$ 146,863	\$ 515,157

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

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

	Years Ended December 31,		
	2015	2014	2013
<b>Cash flows from operating activities:</b>			
Net income (loss)	\$ 117,016	\$ 170,454	\$ (185,555)
Adjustments to reconcile net income (loss) to net cash from operating activities:			
Depreciation and amortization of property and equipment	1,590	1,834	15,937
Amortization of intangible assets	20,624	18,472	22,330
Stock-based compensation expense	11,517	13,269	13,503
Gain on disposal of property and equipment and other assets, net	—	(19,618)	(8,975)
Impairment of goodwill	—	—	6,664
Non-cash restructuring, impairment of long-lived assets and other charges	—	820	64,716
Deferred income tax and other, net	18,809	(44,042)	22,735
Amortization of premium or discount on investments and other	(2,601)	(144)	3,104
Tax effect from employee stock option plan	668	(1,968)	—
Excess tax benefits from employee stock option plan	(726)	—	—
Patents acquired through settlement agreements	—	(4,280)	—
Changes in operating assets and liabilities:			
Accounts receivable, net	2,694	(1,217)	8,445
Inventories	—	—	1,123
Other assets	(10,051)	5,307	(2,568)
Accounts payable	(2,685)	566	(5,887)
Accrued legal fees	(1,819)	(5,749)	(1,537)
Accrued and other liabilities	(5,074)	(8,568)	1,608
Deferred revenue	(3,412)	9,068	(3,720)
Net cash from operating activities	<u>146,550</u>	<u>134,204</u>	<u>(48,077)</u>
<b>Cash flows from investing activities:</b>			
Purchases of property and equipment	(1,002)	(1,769)	(20,111)
Proceeds from sale of property and equipment and other assets	—	31,173	19,708
Purchases of short-term available-for-sale investments	(298,848)	(301,629)	(233,888)
Proceeds from maturities and sales of short-term investments	324,713	203,659	285,598
Acquisition, net of cash acquired	(38,561)	(2,450)	—
Purchases of intangible assets	(7,588)	(5,635)	(3,360)
Net cash from investing activities	<u>(21,286)</u>	<u>(76,651)</u>	<u>47,947</u>
<b>Cash flows from financing activities:</b>			
Dividend paid	(41,677)	(48,335)	(37,588)
Excess tax benefit from stock-based compensation	726	—	—
Proceeds from exercise of stock options	8,995	32,581	33,497
Proceeds from employee stock purchase program	1,665	1,700	3,417
Repurchase of common stock	(123,282)	(66,313)	(29,276)
Net cash from financing activities	<u>(153,573)</u>	<u>(80,367)</u>	<u>(29,950)</u>
Net increase (decrease) in cash and cash equivalents	(28,309)	(22,814)	(30,080)
Cash and cash equivalents at beginning of period	50,908	73,722	103,802
Cash and cash equivalents at end of period	<u>\$ 22,599</u>	<u>\$ 50,908</u>	<u>\$ 73,722</u>

**Supplemental disclosure of cash flow information:**

Income taxes paid, net	\$ 36,781	\$ 29,053	\$ 10,703
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**Supplemental disclosure of non-cash investing activities:**

Property and equipment included in accounts payable and accrued liabilities	\$ —	\$ —	\$ 372
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The accompanying notes are an integral part of these consolidated financial statements.



**TESSERA TECHNOLOGIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 – THE COMPANY AND BASIS OF PRESENTATION**

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

The consolidated financial statements include the accounts of Tessera Technologies, Inc. and each of its wholly owned subsidiaries. The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") in the United States ("U.S."). All significant intercompany balances and transactions are eliminated in consolidation.

The Company's fiscal year ends on December 31. The Company employs a calendar month-end reporting period for its quarterly reporting.

***Reclassification***

Certain reclassifications have been made to prior period balances in order to conform to the current period's presentation. The most significant of these reclassifications are as follows:

- Amortization expense is now shown separately on the Consolidated Statements of Operations.
- Certain balance sheet items from 2014 have been grouped together to conform with current periods presented.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Use of estimates***

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The accounting estimates and assumptions that require management's most significant, difficult, and subjective judgment include the recognition and measurement of current and deferred income tax assets and liabilities, the fair value measurements of investments, the assessment of the recoverability of goodwill, the assessment of useful lives and recoverability of long-lived assets, the assessment of unrecognized tax benefits and the valuation and recognition of stock-based compensation expense, among others. Actual results experienced by the Company may differ from management's estimates.

***Cash and Cash Equivalents***

The Company considers all highly liquid investments purchased with an original or remaining maturity of three months or less at the date of purchase to be cash equivalents. Cash and cash equivalents are maintained with various financial institutions.

***Financial Instruments***

Investments consist primarily of municipal bonds and notes, corporate bonds and notes, treasury and agency notes and bills, commercial paper, certificates of deposit, and money market funds. Investments with remaining maturities from original purchase date of three months or less are considered to be cash equivalents. Investments with remaining maturities from original purchase date greater than three months are generally classified as available-for-sale, if required, in current operations, and are classified as short-term investments. Investments determined to lack an active market for a period greater than 12 months are classified as available-for-sale and classified as long-term investments. The Company's cash equivalents and short-term investments are classified as available-for-sale. Unrealized gains and losses on securities, net of tax, are recorded in accumulated other comprehensive income and reported as a separate component of stockholders' equity. The Company evaluates the investments periodically for possible other-than-temporary impairment and reviews factors such as the length of time and extent to which fair value has been below cost basis, the financial condition of the issuer, the Company's ability and intent to hold the security until maturity on a more-likely-than-not basis. If the declines in the fair value of the investments are determined to be other-than-temporary, the Company reports the credit loss portion of such decline in other income and expense, net, and the remaining noncredit loss portion in accumulated other comprehensive income. The cost of securities sold

is based on the specific identification method. Interest and dividend income and realized gains or losses are included in other income and expense, net.

### **Concentration of credit and other risks**

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash equivalents, short-term investments and accounts receivable. The Company follows a corporate investment policy which sets credit, maturity and concentration limits and regularly monitors the composition, market risk and maturities of these investments. The Company believes that any concentration of credit risk in its accounts receivable is substantially mitigated by the Company's evaluation process, relatively short collection terms and the high level of credit worthiness of its customers. The Company performs ongoing credit evaluations of its customers' financial condition and limits the amount of credit extended when deemed necessary but generally requires no collateral.

At December 31, 2015, the Company had four customers representing 26% , 21% , 13% and 12% of aggregate gross trade receivables. At December 31, 2014, the Company had two customers representing 60% and 11% of aggregate gross trade receivables.

The following table sets forth revenues generated from customers which comprise 10% or more of total revenues for the periods indicated:

	Years Ended December 31,		
	2015	2014	2013
Samsung Electronics, Co. Ltd.	19%	24%	11%
Micron Technology, Inc.	15%	*0%	*0%
Amkor Technologies, Inc.	14%	*0%	*0%
SK hynix Inc.	13%	11%	26%
Powertech Technology Inc.	*0%	34%	* %
Sony Corporation	*0%	*0%	18%

\* denotes less than 10% of total revenues.

### **Goodwill and identified intangible assets**

**Goodwill** . Goodwill is recorded as the difference, if any, between the aggregate consideration paid for an acquisition and the fair value of the net tangible and identified intangible assets acquired under a business combination. The Company reviews impairment of goodwill annually in the fourth quarter. The Company first assesses qualitative factors to determine whether it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. If the Company concludes it is more-likely-than-not that the fair value of a reporting unit exceeds its carrying amount, it need not perform the two-step impairment test.

If based on the qualitative assessment, the Company believes it is more-likely-than-not that the fair value of its reporting units is less than its carrying value, a two-step goodwill impairment test is required to be performed. The first step requires the Company to compare the fair value of each reporting unit to its carrying value including allocated goodwill. The Company determines the fair value of its reporting units using an equal weighting of the results derived from an income approach and a market approach. The income approach is estimated through the discounted cash flow method based on assumptions about future conditions such as future revenue growth rates, new product and technology introductions, gross margins, operating expenses, discount rates, future economic and market conditions, and other assumptions. The market approach estimates the fair value of the Company's equity by utilizing the market comparable method which is based on revenue multiples from comparable companies in similar lines of business. If the carrying value of a reporting unit exceeds the reporting unit's fair value, the Company performs the second step of the goodwill impairment test to determine the amount of impairment loss.

The second step of the goodwill impairment test involves comparing the implied fair value of the reporting unit with the carrying value of the reporting unit. An impairment charge is recognized for the excess of the carrying value of the reporting unit over its implied fair value. Determining the fair value of a reporting unit is subjective in nature and requires the use of significant estimates and assumptions, including revenue growth rates and operating margins, discount rates and future market conditions, among others.



*Identified intangible assets* . Identified intangible assets consist of acquired patents, existing technology, trade names, assembled workforce and non-compete agreements resulting from business combinations, and acquired patents under asset purchase agreements. The Company's identified intangible assets are amortized on a straight-line basis over their estimated useful lives, ranging from 2 to 15 years . The Company makes judgments about the recoverability of purchased finite-lived intangible assets whenever facts and circumstances indicate that the useful life is shorter than originally estimated or that the carrying amount of assets may not be recoverable. If such facts and circumstances exist, the Company assesses recoverability by comparing the projected undiscounted net cash flows associated with the related asset or group of assets over their remaining lives against their respective carrying amounts. Impairments, if any, are based on the excess of the carrying amount over the fair value of those assets. If the useful life is shorter than originally estimated, the Company would accelerate the rate of amortization and amortize the remaining carrying value over the new shorter useful life.

For further discussion of goodwill and identified intangible assets, see "Note 9 – Goodwill and Identified Intangible Assets."

#### ***Treasury stock***

The Company accounts for stock repurchases using the cost method. For reissuance of treasury stock, to the extent that the reissuance price is more than the cost, the excess is recorded as an increase to capital in excess of par value. If the reissuance price is less than the cost, the difference is recorded in capital in excess of par value to the extent there is a cumulative treasury stock paid-in capital balance. Once the cumulative balance is reduced to zero , any remaining difference resulting from the sale of treasury stock below cost is recorded as a reduction of retained earnings.

#### ***Revenue recognition***

The Company derives its revenue from royalty and license fees. Revenues are recognized when there is persuasive evidence of an arrangement, delivery has occurred, the fee is fixed or determinable, and collectability of the resulting receivable is reasonably assured. Determining whether and when these criteria have been satisfied requires the Company to make assumptions and judgments which could have a significant impact on the timing and amount of revenues it reports.

Royalty revenues are generated from a licensee's production or shipment of licensed products incorporating the Company's intellectual property, technologies or software. Running royalties are primarily based on unit volumes shipped. Licensees generally report shipment information within 30 to 60 days following the end of the quarter. From time to time the Company also enters into license agreements that provide for fixed license fees or royalty payments. When there is no reliable basis on which the Company can estimate its royalty revenues prior to obtaining these reports from the licensees, the Company recognizes royalty revenues on a one-quarter lag. Royalty revenue also includes payments resulting from periodic compliance audits of licensees, as part of a settlement of a patent infringement dispute, or judgments of license dispute.

License revenues are generated from license agreements for certain rights to the Company's intellectual property technologies. The Company also derives revenue from software licenses for digital and video photography image enhancement technology. In some instances, the Company may enter into license agreements that involve multiple element arrangements to also include technology transfer, design, technical service and unspecified support. For technology and software licenses, revenue is recognized upon delivery or on a straight-line basis over the period in which the unspecified support or service is performed.

The Company recognizes revenue from litigation settlements when payments are received which is deemed to be when collectability is reasonably assured.

The Company provides payment terms to licensees based upon their financial strength, credit worthiness and the Company's collection experience with the licensee. If the Company provides extended payment terms, revenue is deferred until payment is due.

#### ***Indemnification***

The Company provides indemnification of varying scope to certain customers against claims of intellectual property infringement made by third parties arising from the use of the Company's technologies. In accordance with authoritative guidance for accounting for guarantees, the Company evaluates estimated losses for such indemnification. The Company considers such factors as the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss. To date, no such claims have been filed against the Company and, as a result, no liability has been recorded in the Company's financial statements.

As permitted under Delaware law, the Company has agreements whereby it indemnifies its officers and directors for certain events or occurrences while the officer or director is, or was, serving at the Company's request in such capacity. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is

unlimited; however, the Company has Directors' and Officers' Liability insurance coverage that is intended to reduce its financial exposure and may enable the Company to recover a portion of any such payments. The Company believes the estimated fair value of these indemnification agreements in excess of applicable insurance coverage is minimal.

***Research, development and other related costs***

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

***Stock-based compensation expense***

The Company accounts for stock-based compensation expense in accordance with the authoritative guidance on share-based payment. Under the provisions of the guidance, stock-based compensation expense is measured at the grant date based on the fair value of the option using a Black-Scholes option pricing model and is recognized as expense on a straight-line basis over the requisite service period, which is generally the vesting period. The fair value of the Company's stock awards for non-employees was estimated based on the fair market value on each vesting date, accounted for under the variable-accounting method.

The authoritative guidance also requires that the Company measure and recognize stock-based compensation expense upon modification of the term of stock award. The stock-based compensation expense for such modification is the sum of any unamortized expense of the award before modification and the modification expense. The modification expense is the incremental amount of the fair value of the award before the modification and the fair value of the award after the modification, measured on the date of modification. In the case when the modification results in a longer requisite period than in the original award, the Company has elected to apply the pool method where the aggregate of the unamortized expense and the modification expense is amortized over the new requisite period on a straight-line basis. In addition, any forfeiture will be based on the original requisite period prior to the modification.

Calculating stock-based compensation expense requires the input of highly subjective assumptions, including the expected term of the stock-based awards, stock price volatility, and the pre-vesting option forfeiture rate. The Company estimates the expected life of options granted based on historical exercise patterns, which are believed to be representative of future behavior. The Company estimates the volatility of the Company's common stock on the date of grant based on historical volatility. The assumptions used in calculating the fair value of stock-based awards represent the Company's best estimates, but these estimates involve inherent uncertainties and the application of management judgment. As a result, if factors change and the Company uses different assumptions, its stock-based compensation expense could be materially different in the future. In addition, the Company is required to estimate the expected forfeiture rate and only recognize expense for those shares expected to vest. The Company estimates the forfeiture rate based on historical experience of its stock-based awards that are granted, exercised and cancelled. If the actual forfeiture rate is materially different from the estimate, stock-based compensation expense could be significantly different from what was recorded in the current period. See Note 12 – "*Stock-based Compensation Expense*" for additional detail.

***Income taxes***

The Company must make certain estimates and judgments in determining income tax expense for financial statement purposes. These estimates and judgments occur in the calculation of tax credits, tax benefits, tax deductions, and in the calculation of certain deferred taxes and tax liabilities. Significant changes to these estimates may result in an increase or decrease to the Company's tax provision in a subsequent period.

The provision for income taxes was comprised of the Company's current tax liability and changes in deferred income tax assets and liabilities. The calculation of the current tax liability involves dealing with uncertainties in the application of complex tax laws and regulations and in determining the liability for tax positions, if any, taken on the Company's tax returns in accordance with authoritative guidance on accounting for uncertainty in income taxes. Deferred income taxes are determined based on the differences between the financial reporting and tax basis of assets and liabilities. The Company must assess the likelihood that it will be able to recover the Company's deferred tax assets. If recovery is not likely on a more-likely-than-not basis, the Company must increase its provision for income taxes by recording a valuation allowance against the deferred tax assets that it estimates will not ultimately be recoverable. However, should there be a change in the Company's ability to recover its deferred tax assets, the provision for income taxes would fluctuate in the period of such change. See Note 13 – "*Income Taxes*" for additional detail.

### ***Contingencies***

From time to time, the Company may be involved in legal and administrative proceedings and claims of various types. The Company records a liability in its consolidated financial statements for these matters when a loss is known or considered probable and the amount can be reasonably estimated. Management reviews these estimates in each accounting period as additional information becomes known and adjusts the loss provision when appropriate. If the loss is not probable or cannot be reasonably estimated, a liability is not recorded in the consolidated financial statements. If a loss is probable but the amount of loss cannot be reasonably estimated, the Company discloses the loss contingency and an estimate of possible loss or range of loss (unless such an estimate cannot be made). The Company does not recognize gain contingencies until they are realized. Legal costs incurred in connection with loss contingencies are expensed as incurred. See Note 14 – “*Commitments and Contingencies*,” for further information regarding the Company’s pending litigation.

### ***Property and equipment***

Property and equipment are recorded at cost and depreciated using the straight-line method over their estimated useful lives. The depreciable lives range from one to five years.

## **NOTE 3 – RECENT ACCOUNTING PRONOUNCEMENTS**

### ***Recently Adopted Accounting Pronouncements***

In September 2015, the FASB issued ASU No. 2015-16, “Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments” (“ASU 2015-16”). The standard requires that adjustments made to provisional amounts recognized in a business combination be recorded in the period such adjustments are determined, rather than retrospectively adjusting previously reported amounts. ASU 2015-16 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015, and early adoption is permitted. The adoption of ASU 2015-16 did not have a material effect on the Company’s consolidated financial statements or disclosures.

In November 2015, the FASB issued ASU No. 2015-17, “Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes” (“ASU 2015-17”). The FASB issued this ASU as part of its ongoing simplification initiative, with the objective of reducing complexity in accounting standards. The amendments in ASU 2015-17 require entities that present a classified balance sheet to classify all deferred tax liabilities and assets as a noncurrent amount. This guidance does not change the offsetting requirements for deferred tax liabilities and assets, which results in the presentation of one amount on the balance sheet. Additionally, the amendments in this ASU align the deferred income tax presentation with the requirements in International Accounting Standards (IAS) 1, Presentation of Financial Statements. The amendments in ASU 2015-17 are effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted. The Company adopted this guidance prospectively as of December 31, 2015. The adoption of ASU 2015-17 required short-term deferred tax assets be reclassified to long-term deferred tax assets. The adoption did not have any other material effect on the Company’s consolidated financial statements or disclosures.

### ***Recent Accounting Pronouncements***

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers” (“ASU 2014-09”), which provides guidance for revenue recognition. ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets and supersedes the revenue recognition requirements in Topic 605, “Revenue Recognition,” and most industry-specific guidance. This ASU also supersedes some cost guidance included in Subtopic 605-35, “Revenue Recognition-Construction-Type and Production-Type Contracts.” ASU 2014-09’s core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which a company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under today’s guidance, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. ASU 2014-09 is effective for the Company beginning January 1, 2018 and, at that time, the Company may adopt the new standard under the full retrospective approach or the modified retrospective approach. At this time, some of the current guidance impacting the intellectual property licensing industry has not been finalized. Therefore, the Company is still considering how the guidance might affect its financial reporting once finalized.

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

relates to awards with performance conditions that affect vesting to account for such awards. The amendments in ASU 2014-12 are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Entities may apply the amendments in ASU 2014-12 either: (a) prospectively to all awards granted or modified after the effective date; or (b) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. The implementation of this guidance will not have a material impact to the disclosures in the Company's consolidated financial statements.

**NOTE 4 – COMPOSITION OF CERTAIN FINANCIAL STATEMENT CAPTIONS**

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

	December 31, 2015	December 31, 2014
Prepaid income taxes	\$ 22,890	\$ 12,841
Interest receivable	2,427	2,138
Other	2,813	2,298
	<u>\$ 28,130</u>	<u>\$ 17,277</u>

Accrued liabilities consisted of the following (in thousands):

	December 31, 2015	December 31, 2014
Employee compensation and benefits	\$ 6,848	\$ 10,734
Other	3,414	2,550
	<u>\$ 10,262</u>	<u>\$ 13,284</u>

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

	December 31, 2015	December 31, 2014
Unrealized loss on available-for-sale securities, net of tax	\$ (1,437)	\$ (333)
	<u>\$ (1,437)</u>	<u>\$ (333)</u>

**NOTE 5 – FINANCIAL INSTRUMENTS**

The following is a summary of marketable securities at December 31, 2015 and December 31, 2014 (in thousands):

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

	December 31, 2014			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Values
<b>Available-for-sale securities</b>				
Corporate bonds and notes	\$ 282,279	\$ 13	\$ (538)	\$ 281,754
Municipal bonds and notes	37,201	15	(1)	37,215
Treasury and agency notes and bills	41,271	10	(13)	41,268
Commercial paper	33,774	2	(1)	33,775
Money market funds	20,883	—	—	20,883
<b>Total available-for-sale securities</b>	<b>\$ 415,408</b>	<b>\$ 40</b>	<b>\$ (553)</b>	<b>\$ 414,895</b>
<b>Reported in:</b>				
Cash and cash equivalents				\$ 31,382
Short-term investments				383,513
<b>Total marketable securities</b>				<b>\$ 414,895</b>

At December 31, 2015 and December 31, 2014, the Company had \$381.7 million and \$434.4 million, respectively, in cash, cash equivalents and short-term investments. The majority of these amounts were held in marketable securities, as shown above. The remaining balance of \$21.9 million and \$19.5 million at December 31, 2015 and December 31, 2014, respectively, was cash held in operating accounts not included in the tables above.

The gross realized gains and losses on sales of marketable securities were not significant during the years ended December 31, 2015, 2014 and 2013.

Unrealized losses (net of unrealized gains) of \$0.9 million, net of tax, as of December 31, 2015, were related to a temporary decrease in value of the remaining available-for-sale securities and were due primarily to changes in interest rates and market and credit conditions of the underlying securities. Certain investments with a temporary decline in value are not considered to be other-than-temporarily impaired as of December 31, 2015 because the Company has the ability to hold these investments to allow for recovery, and does not anticipate having to sell these securities with unrealized losses and continues to receive interest at the maximum contractual rate. For the years ended December 31, 2015, 2014 and 2013, respectively, the Company did not record any impairment charges related to its marketable securities.

The following table summarizes the fair value and gross unrealized losses related to individual available-for-sale securities at December 31, 2015 and 2014, which have been in a continuous unrealized loss position, aggregated by investment category and length of time (in thousands):

December 31, 2015	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Corporate bonds and notes	\$ 183,491	\$ (1,162)	\$ 70,447	\$ (124)	\$ 253,938	\$ (1,286)
Municipal bonds and notes	60,976	(81)	—	—	60,976	(81)
Treasury and agency notes	26,880	(93)	—	—	26,880	(93)
<b>Total</b>	<b>\$ 271,347</b>	<b>\$ (1,336)</b>	<b>\$ 70,447</b>	<b>\$ (124)</b>	<b>\$ 341,794</b>	<b>\$ (1,460)</b>

December 31, 2014	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Corporate bonds and notes	\$ 240,165	\$ (535)	\$ 5,453	\$ (3)	\$ 245,618	\$ (538)
Municipal bonds and notes	1,061	(1)	—	—	1,061	(1)
Commercial paper	9,482	(1)	—	—	9,482	(1)
Treasury and agency notes and bills	16,245	(13)	—	—	16,245	(13)
<b>Total</b>	<b>\$ 266,953</b>	<b>\$ (550)</b>	<b>\$ 5,453</b>	<b>\$ (3)</b>	<b>\$ 272,406</b>	<b>\$ (553)</b>

The estimated fair value of marketable securities by contractual maturity at December 31, 2015 is shown below (in thousands). Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations without call or prepayment penalties.

	Estimated Fair Value
Due in one year or less	\$ 153,396
Due in one to two years	119,693
Due in two to three years	86,771
Total	<u>\$ 359,860</u>

#### NOTE 6 – DISCONTINUED OPERATIONS

The following are included in the Company's discontinued operations:

- In 2013, the Company continued to restructure its DigitalOptics business through the sale of its Micro-Optics business based in Charlotte, North Carolina. Originally purchased in 2006, this business focused on diffractive optical elements, refractive optical elements, and integrated micro-optic sub-assemblies. The Company determined these offerings were no longer part of its long-term strategy for the DigitalOptics business. As a result, on August 9, 2013, the Company sold all of the related assets of the Micro-Optics business, except the land and building, to a buyer in exchange for \$14.9 million in cash which resulted in a disposal gain of \$8.7 million, and is included in the net loss from discontinued operations. The land and building assets were classified as assets held for sale until they were sold in August 2014.
- In 2014, the Company announced a restructuring of its DigitalOptics segment to cease all remaining manufacturing operations resulting in the impairment charges related to the Company's long-lived assets. For the year ended December 31, 2013, the Company incurred cumulative charges, which include continuing and discontinued operations in total, of \$5.9 million in severance and \$70.9 million in impairment of long-lived assets and other charges.
- In 2014, the Company announced the cessation of all mems|cam manufacturing operations. As part of these efforts, the Company is no longer operating facilities in Arcadia, California, Rochester, New York, Hsinchu, Taiwan and Japan. As a result of these actions, certain assets were impaired or were written off entirely and restructuring and other charges were taken in 2013. All material assets of these operations were sold or licensed to a third party in December 2014 generating a gain of \$7.6 million which is included in discontinued operations.

For more information regarding these actions, see Note 9 - "Goodwill and Identified Intangible Assets" and Note 16 - "Restructuring, Impairment of Long-Lived Assets and Other Charges and Gain on Sale of Patents."

The businesses discussed above are considered discontinued operations, and accordingly, the Company has reported the results of operations and financial position of these businesses in discontinued operations within all statements of operations presented and the current balance sheet.

The results from discontinued operations were as follows (in thousands):

	Years Ended December 31,		
	2015	2014	2013
<b>Revenues:</b>			
Product and service revenues	\$ —	\$ 32	\$ 6,524
<b>Total revenues</b>	<b>—</b>	<b>32</b>	<b>6,524</b>
<b>Operating expenses:</b>			
Cost of revenues	—	21	12,276
Research, development and other related costs	—	6,190	60,117
Selling, general and administrative	389	6,254	11,833
Restructuring, impairment of long-lived assets and other charges and gain on sale of patents	(371)	(3,178) (1)	72,280 (2)
Impairment of goodwill	—	—	6,548 (3)
<b>Total operating expenses</b>	<b>18</b>	<b>9,287</b>	<b>163,054</b>
<b>Other income and (expense), net</b>	<b>—</b>	<b>629</b>	<b>572</b>
Operating loss before taxes	(18)	(8,626)	(155,958)
Expense (benefit) from income taxes	83	(4,137)	(11,312)
Net loss from discontinued operations	\$ (101)	\$ (4,489)	\$ (144,646)

(1) As noted above, the Company has undergone significant restructuring activities in 2014. The majority of restructuring, impairment and other charges occurred during 2013. In 2014, the company sold assets and the proceeds are netted against expenses.

(2) As noted above, the Company has undergone restructuring activities in 2013. The majority of restructuring, impairment and other charges occurred during 2013. In 2013, the Company incurred \$45.0 million in the impairment of fixed assets which primarily consisted of manufacturing equipment used in both the Zhuhai and Taiwan facilities, \$16.6 million in the impairment of intangible assets which included the Eyesquad and Siimpel portfolios and \$4.7 million of severance costs due to the related reductions in force.

(3) See Note 9 – "Goodwill and Identified Intangible Assets."

The current assets and current liabilities of discontinued operations were as follows (in thousands):

	December 31, 2015	December 31, 2014
Accounts receivable and other assets, net	\$ —	\$ 390
Property and equipment, net	—	—
<b>Total assets of discontinued operations</b>	<b>\$ —</b>	<b>\$ 390</b>
Accrued liabilities (1)	\$ —	\$ 2,873
<b>Total liabilities of discontinued operations</b>	<b>\$ —</b>	<b>\$ 2,873</b>

(1) The December 31, 2014 balances relate to the cessation of all mems|cam manufacturing operations. This amount included lease obligations and employee severance which were settled in cash in the first half of 2015. This amount is included in "Other current liabilities" on the condensed consolidated balance sheet.

**NOTE 7 – FAIR VALUE**

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

- Level 1* Quoted prices in active markets for identical assets.
- Level 2* Observable market-based inputs or unobservable inputs that are corroborated by market data.
- Level 3* Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

When applying fair value principles in the valuation of assets, we are required to maximize the use of quoted market prices and minimize the use of unobservable inputs. We calculate the fair value of our Level 1 and Level 2 instruments based on the exchange traded price of similar or identical instruments, where available, or based on other observable inputs. There were no significant transfers into or out of Level 1 or Level 2 that occurred between December 31, 2014 and December 31, 2015.

The following is a list of the Company's assets required to be measured at fair value on a recurring basis and where they were classified within the hierarchy as of December 31, 2015 (in thousands):

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets</b>				
Marketable securities				
Money market funds (1)	\$ 715	\$ 715	\$ —	\$ —
Corporate bonds and notes (2)	256,182	—	256,182	—
Municipal bonds and notes (2)	70,703	—	70,703	—
Treasury and agency notes and bills (2)	26,880	—	26,880	—
Commercial paper (2)	5,380	—	5,380	—
<b>Total Assets</b>	<b>\$ 359,860</b>	<b>\$ 715</b>	<b>\$ 359,145</b>	<b>\$ —</b>

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

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

The following is a list of the Company's assets required to be measured at fair value on a recurring basis and where they were classified within the hierarchy as of December 31, 2014 (in thousands):



	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets</b>				
Marketable securities				
Money market funds (1)	\$ 20,883	\$ 20,883	\$ —	\$ —
Corporate bonds and notes (2)	281,754	—	281,754	—
Municipal bonds and notes (2)	37,215	—	37,215	—
Treasury and agency notes and bills (2)	41,268	—	41,268	—
Commercial paper (3)	33,775	—	33,775	—
<b>Total Assets</b>	<b>\$ 414,895</b>	<b>\$ 20,883</b>	<b>\$ 394,012</b>	<b>\$ —</b>

The following footnotes indicate where the noted items were recorded in the Consolidated Balance Sheet at December 31, 2014:

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

*Non-Recurring Fair Value Measurements*

The following table represents the activity in level 3 assets (in thousands):

	Assets held for sale	Assets included in discontinued operations and held for sale	Other
Balance at December 31, 2013	\$ —	\$ 9,720 (1)	\$ —
Assets transferred	—	1,398	—
Assets sold	—	(11,118) (2)	—
Assets received	—	—	4,280
Balance at December 31, 2014	\$ —	\$ —	\$ 4,280
Assets transferred	—	—	—
Assets sold	—	—	—
Assets received	—	—	—
Balance at December 31, 2015	\$ —	\$ —	\$ 4,280 (3)

(1) Comprised of assets remaining after the sale of the Micro-Optics business located in Charlotte, North Carolina, which was completed in August 2013 and assets remaining as a result of the cessation of the Company's mems|cam manufacturing activities. See Note 6 - "Discontinued Operations" for more information. These assets are carried at market value as determined by specific third party quotes.

(2) The assets in footnote 1 above were sold in 2014. These assets sold for \$17.1 million in the aggregate and resulted in a gain of \$5.8 million .

(3) This amount represents the value of the patents that were received as part of licensing settlements with customers. These assets were valued using a methodology based on an arms-length purchase price of bulk patent assets, with adjustments based on limited pick rights, the total available market, and remaining average patent life. The value above is gross and the accumulated amortization to date is \$1.0 million .

**NOTE 8 - BUSINESS COMBINATIONS**

**Ziptronix**

On August 27, 2015, the Company completed its acquisition of Ziptronix, Inc. (“Ziptronix”) for approximately \$39 million in cash, net of \$1.5 million in working capital (which includes \$1.9 million in cash) acquired. Approximately \$0.7 million of the consideration was withheld until certain employees complete the term of their employment obligations. The acquisition expands the Company’s existing advanced packaging capabilities by adding a low-temperature wafer bonding technology platform that will accelerate delivery of 2.5D and 3D-IC solutions to semiconductor industry customers.

Ziptronix’s patented ZiBond® direct bonding and DBI® hybrid bonding technologies deliver scalable, low total cost-of-ownership manufacturing solutions for 3D stacking. Ziptronix’s intellectual property has been licensed to Sony Corporation for volume production of CMOS image sensors. Ziptronix’s technology is also relevant to next-generation stacked memory, 2.5D FPGAs, RF Front-End and MEMS devices, among other semiconductor applications. The significant future market opportunity for the Company to own Ziptronix contributed to a purchase price in excess of the fair value of the underlying net assets and identified intangible assets acquired from Ziptronix and, as a result, the Company has recorded goodwill in connection with this transaction. The business combination transaction was accounted for using the acquisition method of accounting.

**Purchase price allocation**

In accordance with the accounting guidance on business combinations, the total purchase price is allocated to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values. Based upon the fair values acquired, the purchase price allocation is as follows (unaudited, in thousands):

	<b>Amount</b>	<b>Estimated Useful Life (Years)</b>
<b>Net tangible assets and liabilities:</b>		
Unbilled contract asset	\$ 3,380	
Deferred tax assets and liabilities, net	(7,671) (1)	
Other accrued liabilities	(385)	
	<u>\$ (4,676)</u>	
<b>Identified intangible assets:</b>		
Patents/existing technology	\$ 32,300	5-8
Trade name	1,300	8
Customer relationships	1,600	2
Goodwill	8,037 (2)	N/A
	<u>\$ 43,237</u>	
<b>Total purchase price</b>	<b>\$ 38,561</b>	

(1) The \$7.7 million of deferred tax assets and liabilities, net is the anticipated tax effect from the amortization of identified intangible assets acquired, net of tax benefits from operating losses the Company expects to utilize.

(2) The Company does not anticipate that any of this goodwill will be deductible for tax purposes.

The amounts of revenue and earnings that would have been included in the Company’s condensed consolidated statement of operations for the year ended December 31, 2015 for the combined entity had the acquisition date been January 1, 2014, are as follows (unaudited, in thousands):

	<b>Revenue</b>	<b>Earnings</b>
Actual for the year ended December 31, 2014	\$ 278,807	\$ 170,454
Actual for the year ended December 31, 2015	\$ 273,300	\$ 117,016
Supplemental pro forma for the year ended December 31, 2014 (unaudited)	\$ 282,637	\$ 167,165 (1)
Supplemental pro forma for the year ended December 31, 2015 (unaudited)	\$ 304,615 (3)	\$ 137,595 (1)(2)(3)

(1) Includes \$5.6 million in pre-tax amortization costs related to the intangible assets acquired.

(2) Excludes \$3.1 million in acquisition related costs, primarily financial advisor fees and contract settlement costs incurred by Ziptronix in connection with the acquisition.

(3) Almost all of the revenue and earnings related to Ziptronix in this period is the result of one -time license fee payments during the three months ended March 31, 2015 (unaudited).

**NOTE 9 – GOODWILL AND IDENTIFIED INTANGIBLE ASSETS**

In March 2013, the Company revised its business strategy for the DigitalOptics business to concentrate its manufacturing efforts on the lens barrel, rather than the whole camera module. This revised strategy made the Zhuhai Facility unnecessary. The Company announced the closure of the Zhuhai Facility in March 2013. This decision triggered an impairment review of the related goodwill and purchased intangible assets. As a result of the Company's impairment assessment, completed in the first quarter of 2013, the Company recorded an impairment charge to goodwill of \$6.7 million .

In 2015, the Company assessed goodwill impairment for its reporting unit. As of September 30, 2015, the Company assessed goodwill impairment for its reporting unit by performing a qualitative assessment and no impairment of goodwill was indicated as the Company concluded that it was more likely than not that the fair value of its reporting unit exceeded its carrying amount. In addition, there have been no significant events or circumstances affecting the valuation of goodwill subsequent to the qualitative assessment performed in the fourth quarter of the year ended December 31, 2015.

The changes to the carrying value of goodwill from January 1, 2014 through December 31, 2015 are reflected below (in thousands):

<b>December 31, 2013</b>	\$	—
Goodwill acquired		2,099
<b>December 31, 2014</b>	\$	2,099
Goodwill acquired through the acquisition of Ziptronix, Inc. (1)		8,037
<b>December 31, 2015</b>	<u>\$</u>	<u>10,136</u> (2)

(1) For more information regarding this transaction, see Note 8 - "*Business Combinations*."

(2) This amount is included in "*Other assets*" on the consolidated balance sheet.

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

	Average Life (Years)	December 31, 2015			December 31, 2014		
		Gross Assets	Accumulated Amortization	Net	Gross Assets	Accumulated Amortization	Net
Acquired patents / core technology (1)	3-15	\$ 140,345	\$ (79,128)	\$ 61,217	\$ 132,157	\$ (62,053)	\$ 70,104
Existing technology (2)	5-10	50,620	(20,182)	30,438	18,700	(17,932)	768
Customer contracts	3-9	10,200	(7,792)	2,408	8,600	(6,569)	2,031
Trade name	4-10	1,600	(574)	1,026	520	(498)	22
		<u>\$ 202,765</u>	<u>\$ (107,676)</u>	<u>\$ 95,089</u>	<u>\$ 159,977</u>	<u>\$ (87,052)</u>	<u>\$ 72,925</u>

(1) In 2014, \$5.9 million in patents were purchased and \$4.3 million in patents were received through litigation settlements.

(2) In 2015, \$31.7 million of existing technology was acquired through our acquisition of Ziptronix. For more information regarding this existing technology, see Note 8 - "*Business Combinations*."

Amortization expense for the years ended December 31, 2015, 2014, and 2013 amounted to \$20.6 million , \$18.5 million and \$19.3 million , respectively. As of December 31, 2015, the estimated future amortization expense of intangible assets is as follows (in thousands):

2016	\$	23,570
2017		21,029
2018		18,713
2019		10,279
2020		6,133
Thereafter		15,365
	\$	95,089

**NOTE 10 – NET INCOME (LOSS) PER SHARE**

The Company has a share-based compensation plan under which employees may be granted share-based awards including shares of restricted stock and restricted stock units ("RSUs"). Non-forfeitable dividends are paid on unvested shares of restricted stock. No dividends are accrued or paid on unvested RSUs. As such, shares of restricted stock are considered participating securities under the two-class method of calculating earnings per share. The two-class method of calculating earnings per share did not have a material impact on the Company's earnings per share calculation as of December 31, 2015, 2014 and 2013.

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

	Years Ended December 31,		
	2015	2014	2013
Weighted average common shares outstanding	51,841	52,898	53,431
Unvested common shares subject to repurchase	(39)	(79)	(85)
Total common shares-basic	51,802	52,819	53,346
Effect of dilutive securities:			
Stock awards	343	346	—
Restricted stock awards and units	441	398	—
Total common shares-diluted	52,586	53,563	53,346

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

For the years ended December 31, 2015, 2014 and 2013 in the calculation of net income (loss) per share, 0.1 million, 1.5 million and 2.8 million shares, respectively, subject to stock options and restricted stock awards and units were excluded from the computation of diluted net income (loss) per share as they were anti-dilutive.

**NOTE 11 – STOCKHOLDERS' EQUITY**

***Stock Repurchase Programs***

In August 2007, the Company's Board of Directors ("the Board") authorized a plan to repurchase the Company's outstanding shares of common stock dependent on market conditions, share price and other factors. As of December 31, 2015, the total amount authorized for repurchases is \$250.0 million. As of December 31, 2015, the Company had repurchased a total of approximately 8,234,000 shares of common stock, since inception of the plan, at an average price of \$27.22 per share for a total

cost of \$224.1 million . As of December 31, 2014, the Company had repurchased a total of approximately 4,901,000 shares of common stock, since inception of the plan, at an average price of \$21.39 per share for a total cost of \$104.9 million . The shares repurchased are recorded as treasury stock and are accounted for under the cost method. No expiration date has been specified for this plan. As of December 31, 2015, the total amount available for repurchase was \$25.9 million . The Company plans to continue to execute authorized repurchases from time to time under the plan.

**Stock Option Plans**

*The 2003 Plan*

In February 2003, the Board adopted and the Company’s stockholders approved the 2003 Equity Incentive Plan (“2003 Plan”). Under the 2003 Plan, incentive stock options may be granted to the Company’s employees at an exercise price of no less than 100% of the fair value on the date of grant, and non-statutory stock options may be granted to the Company’s employees, non-employee directors and consultants at an exercise price of no less than 85% of the fair value. In both cases, when the optionees own stock representing more than 10% of the voting power of all classes of stock of the Company, the exercise price shall be no less than 110% of the fair value on the date of grant. Options, restricted stock awards, and restricted stock units granted under this plan generally have a term of ten years from the date of grant and vest over a four -year period. Restricted stock, performance awards, dividend equivalents, deferred stock, stock payments and stock appreciation rights may also be granted under the 2003 Plan either alone, in addition to, or in tandem with any options granted thereunder. Restricted stock awards and units are full-value awards that reduce the number of shares reserved for grant under this plan by one and one-half shares for each share granted. The vesting criteria for restricted stock awards and units is generally the passage of time or meeting certain performance-based objectives, and continued employment through the vesting period generally over four years. As of December 31, 2015, there were approximately 3.9 million shares reserved for future grant under this plan.

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

	Options Outstanding			
	Number of Shares Subject to Options	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value
<b>Balance at December 31, 2012</b>	7,099	\$17.80		
Options granted	1,204	\$19.00		
Options exercised	(2,031)	\$16.51		
Options canceled / forfeited / expired	(2,355)	\$18.59		
<b>Balance at December 31, 2013</b>	3,917	\$18.37		
Options granted	220	\$22.29		
Options exercised	(1,797)	\$18.13		
Options canceled / forfeited / expired	(724)	\$18.00		
<b>Balance at December 31, 2014</b>	1,616	\$19.34		
Options granted	84	\$36.60		
Options exercised	(465)	\$19.35		
Options canceled / forfeited / expired	(93)	\$19.04		
<b>Balance at December 31, 2015</b>	1,142	\$20.63	7.39	\$ 11,369
Vested and expected to vest at December 31, 2015	1,040		7.30	\$ 10,559
Exercisable at December 31, 2015	502		6.52	\$ 5,603

The following table summarizes information about stock options outstanding and exercisable under all of the Company’s plans at December 31, 2015:

Range of Exercise Prices per Share	Options Outstanding			Options Exercisable		
	Number Outstanding (in thousands)	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price per Share	Number Exercisable (in thousands)	Weighted Average Exercise Price per Share	
\$12.52 - \$14.91	137	6.07	\$ 14.10	100	\$	13.92
\$15.35 - \$18.74	73	6.31	\$ 16.90	43	\$	17.03
\$18.84 - \$18.84	367	7.94	\$ 18.84	148	\$	18.84
\$18.89 - \$19.08	118	7.71	\$ 19.02	73	\$	19.04
\$19.33 - \$20.01	68	6.94	\$ 19.68	29	\$	19.61
\$20.43 - \$20.43	134	7.47	\$ 20.43	47	\$	20.43
\$20.63 - \$26.34	128	7.19	\$ 23.50	40	\$	24.44
\$28.20 - \$44.27	117	7.93	\$ 35.27	24	\$	33.03
\$12.52 - \$44.27	1,142	7.39	\$ 20.63	502	\$	19.04

#### Restricted Stock Awards and Units

Information with respect to outstanding restricted stock awards and units as of December 31, 2015 is as follows (in thousands, except per share amounts):

	Restricted Stock and Restricted Stock Units			
	Number of Shares Subject to Time-based Vesting	Number of Shares Subject to Performance-based Vesting	Total Number of Shares	Weighted Average Grant Date Fair Value Per Share
<b>Balance at December 31, 2012</b>	715	116	831	\$ 16.36
Awards and units granted	596	358	954	\$ 19.26
Awards and units vested / earned	(262)	(27)	(289)	\$ 17.45
Awards and units canceled / forfeited	(312)	(99)	(411)	\$ 16.77
<b>Balance at December 31, 2013</b>	737	348	1,085	\$ 18.46
Awards and units granted	222	309	531	\$ 22.41
Awards and units vested / earned	(289)	—	(289)	\$ 18.85
Awards and units canceled / forfeited	(168)	(24)	(192)	\$ 17.91
<b>Balance at December 31, 2014</b>	502	633	1,135	\$ 20.30
Awards and units granted	472	90	562	\$ 39.77
Awards and units vested / earned	(240)	(144)	(384)	\$ 20.17
Awards and units canceled / forfeited	(44)	(60)	(104)	\$ 21.54
<b>Balance at December 31, 2015</b>	690	519	1,209	\$ 29.28

#### Performance Awards and Units

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

#### Employee Stock Purchase Plans

In August 2003, the Board adopted the 2003 Employee Stock Purchase Plan (the "ESPP"), which was approved by the Company's stockholders in September 2003 and became effective February 1, 2004. Subsequently, the Board adopted the International Employee Stock Purchase Plan (the "International ESPP") in June 2008.

The ESPP has a series of consecutive, overlapping 24-month offering periods. The first offering period commenced February 1, 2004, the effective date of the ESPP, as determined by the Board of Directors.

Individuals who own less than 5% of the Company's voting stock, are scheduled to work more than 20 hours per week and whose customary employment is for more than five months in any calendar year may join an offering period on the first day of the offering period or the beginning of any semi-annual purchase period within that period. Individuals who become eligible employees after the start date of an offering period may join the ESPP at the beginning of any subsequent semi-annual purchase period.

Participants may contribute up to 20% of their cash earnings through payroll deductions, and the accumulated deductions will apply to the purchase of shares on each semi-annual purchase date. The purchase price per share will equal 85% of the fair market value per share on the participant's entry date into the offering period or, if lower, 85% of the fair market value per share on the semi-annual purchase date.

An eligible employee's right to buy the Company's common stock under the ESPP may not accrue at a rate in excess of \$25,000 of the fair market value of such shares per calendar year for each calendar year of an offering period.

If the fair market value per share of the Company's common stock on any purchase date is less than the fair market value per share on the start date of the 24 - month offering period, then that offering period will automatically terminate and a new 24 -month offering period will begin on the next business day. All participants in the terminated offering will be transferred to the new offering period.

As of December 31, 2015, there were approximately 496,440 shares reserved for grant under the ESPP and the International ESPP, collectively.

### **Dividends**

Stockholders of the Company's common stock are entitled to receive dividends when declared by the Company's Board of Directors. The Company began paying a \$0.10 quarterly dividend in the second quarter of 2012 and also paid special dividends in 2013 and 2014. In February 2015, the Company updated its capital allocation strategy. Given the change in business approach that moves us away from backward looking "episodic" payments, the Company discontinued the once-a-year payment of special dividends on episodic proceeds and instead doubled the quarterly dividend to \$0.20 per share effective in March 2015. Dividends declared were \$0.80 , \$0.92 and \$0.70 per common share in 2015, 2014 and 2013, respectively.

### **NOTE 12 – STOCK-BASED COMPENSATION EXPENSE**

The effect of recording stock-based compensation expense for the years ended December 31, 2015, 2014 and 2013 is as follows (in thousands):

	Years Ended December 31,		
	2015	2014	2013
Cost of revenues	\$ —	\$ 18	\$ 50
Research, development and other related costs	4,005	2,823	3,591
Selling, general and administrative	7,512	10,428	9,862
Total stock-based compensation expense	11,517	13,269	13,503
Tax effect on stock-based compensation expense	(3,107)	(1,968)	—
Net effect on net income (loss)	\$ 8,410	\$ 11,301	\$ 13,503

Stock-based compensation expense categorized by various equity components for the years ended December 31, 2015, 2014 and 2013 is summarized in the table below (in thousands):

	Years Ended December 31,		
	2015	2014	2013
Employee stock options	\$ 2,676	\$ 3,336	\$ 7,815
Restricted stock awards and units	8,232	9,322	4,317
Employee stock purchase plan	609	611	1,371
Total stock-based compensation expense	\$ 11,517	\$ 13,269	\$ 13,503

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During the years ended December 31, 2015, 2014 and 2013, the Company granted stock options covering 84,000 , 220,000 and 1,204,000 shares, respectively. The 2015, 2014 and 2013 estimated per share fair value of those grants was \$8.57 , \$5.71 and \$6.82 , respectively, before estimated forfeitures.

The total fair value of restricted stock awards vested during the years ended December 31, 2015, 2014 and 2013 was \$7.7 million , \$5.5 million and \$5.0 million , respectively.

The total intrinsic value of options exercised during the years ended December 31, 2015, 2014 and 2013 was \$9.3 million , \$13.3 million and \$6.8 million , respectively. The intrinsic value is calculated as the difference between the market value on the date of exercise and the exercise price of the shares.

As of December 31, 2015, the unrecognized stock-based compensation balance after estimated forfeitures related to unvested stock options was \$3.0 million to be recognized over an estimated weighted average amortization period of 2.0 years and \$11.1 million related to restricted stock awards and units, including performance-based awards and units, to be recognized over an estimated weighted average amortization period of 2.2 years . As of December 31, 2014, the unrecognized stock-based compensation balance after estimated forfeitures related to unvested stock options was \$5.0 million to be recognized over an estimated weighted average amortization period of 2.6 years and \$5.4 million related to restricted stock awards and units, including performance-based awards and units, to be recognized over an estimated weighted average amortization period of 2.0 years .

The Company uses the Black-Scholes option pricing model to determine the estimated fair value of options. The fair value of each option grant is determined on the date of grant and the expense is recorded on a straight-line basis. The assumptions used in the model include expected life, volatility, risk-free interest rate, and dividend yield. The Company's determinations of these assumptions are outlined below.

*Expected life* – The expected life assumption is based on analysis of the Company's historical employee exercise patterns. The expected life of options granted under the ESPP represents the offering period of two years.

*Volatility* – Volatility is calculated using the historical volatility of the Company's common stock for a term consistent with the expected life. Historical volatility of the Company's common stock is also utilized for the ESPP.

*Risk-free interest rate* – The risk-free interest rate assumption is based on the U.S. Treasury rate for issues with remaining terms similar to the expected life of the options.

*Dividend yield* – Expected dividend yield is calculated based on cash dividends declared by the Board for the previous four quarters and dividing that result by the average closing price of the Company's common stock for the quarter. Cash dividends are not paid on options, restricted stock units or unvested restricted stock awards.

In addition, the Company estimates forfeiture rates. Forfeitures are estimated at the time of grant and revised in subsequent periods if actual forfeitures differ from those estimates. Historical data is used to estimate pre-vesting option forfeitures and record stock-based compensation expense only for those awards that are expected to vest.

The following assumptions were used to value the options granted:

	Years Ended December 31,		
	2015	2014	2013
Expected life (in years)	3.8	4.9	5.0
Risk-free interest rate	1.1 - 1.4%	1.6 - 1.8%	0.8 - 1.8%
Dividend yield	2.1 - 2.9%	3.4 - 4.1%	2.1 - 3.8%
Expected volatility	34.0 - 35.6%	37.3 - 41.4%	44.2 - 59.5%

The following assumptions were used to value the ESPP shares:



	Years Ended December 31,		
	2015	2014	2013
Expected life (years)	2.0	2.0	2.0
Risk-free interest rate	0.4 - 0.7%	0.3 - 0.5%	0.3 - 0.4%
Dividend yield	2.1 - 3.4%	3.4 - 3.5%	2.3 - 3.8%
Expected volatility	29.7 - 30.0%	27.6 - 30.6%	38.9 - 40.6%

For the years ended December 31, 2015, 2014 and 2013, an aggregate of 77,000 , 137,000 and 288,000 common shares, respectively, were purchased pursuant to the ESPP.

#### **Modifications**

From time to time, the Company enters into consulting agreements with its departing employees. Some of these agreements may include continued vesting of the departing employees' stock awards and an extension of the exercise period from the standard 90 days from employment termination date to the termination of the consulting agreement. As a result of modifications related to former employees, the Company incurred stock-based compensation expense of \$0.3 million , \$(0.3) million , and \$3.0 million for the years ended December 31, 2015, 2014 and 2013, respectively.

#### **NOTE 13 – INCOME TAXES**

The components of total income (loss) before taxes from continuing operations are as follows (in thousands):

	Years ended December 31,		
	2015	2014	2013
U.S.	\$ 151,862	\$ 155,757	\$ (36,096)
Foreign	13,772	11,489	31,047
Total income (loss) before taxes from continuing operations	<u>\$ 165,634</u>	<u>\$ 167,246</u>	<u>\$ (5,049)</u>

The provision for (benefit from) income taxes consisted of the following (in thousands):

	Years ended December 31,		
	2015	2014	2013
<b>Current:</b>			
U.S. federal	\$ 2,737	\$ (797)	\$ (4,350)
Foreign	26,275	31,824	14,967
State and local	319	8	8
Total current	<u>29,331</u>	<u>31,035</u>	<u>10,625</u>
<b>Deferred:</b>			
U.S. federal	23,478	(38,732)	25,235
Foreign	(4,138)	—	—
State and local	(154)	—	—
Total deferred	<u>19,186</u>	<u>(38,732)</u>	<u>25,235</u>
Provision for (benefit from) income taxes	<u>\$ 48,517</u>	<u>\$ (7,697)</u>	<u>\$ 35,860</u>

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts for income tax purposes.

Significant components of the company's deferred tax assets and liabilities are as follows (in thousands):

	December 31,	
	2015	2014
<b>Deferred tax assets</b>		
Net operating loss carryforwards	\$ 15,268	\$ 15,053
Research tax credit	5,438	8,332
Foreign tax credit	5,587	22,885
Expenses not currently deductible	12,453	15,096
Basis difference in fixed and intangible assets	4,227	7,090
Gross deferred tax assets	42,973	68,456
Valuation allowance	(13,852)	(27,087)
Net deferred tax assets	29,121	41,369
<b>Deferred tax liabilities</b>		
Acquired intangible assets, foreign	(13,597)	(276)
Unremitted earnings of foreign subsidiaries	(130)	(187)
Net deferred tax assets	\$ 15,394	\$ 40,906

At December 31, 2015 and 2014, the Company had a valuation allowance of \$13.9 million and \$27.1 million, respectively, related to federal, state, and foreign tax attributes that the Company believes to be not realizable on a more-likely-than-not basis. The decrease of \$13.2 million was due to a valuation allowance that was released against certain deferred tax assets, primarily consisting of Ireland deferred tax assets, as the Company concluded such assets were realizable. The need for a valuation allowance requires an assessment of both positive and negative evidence when determining whether it is more likely than not that deferred tax assets are recoverable. Such assessment is required on a jurisdiction-by-jurisdiction basis. In making such assessment, significant weight is given to evidence that can be objectively verified. After considering both negative and positive evidence to assess the recoverability of the Company's net deferred tax assets during the 2015 year, the Company determined that it was more likely than not that it would realize certain deferred tax assets given current certainties regarding the timing of profits and forecasted future profitability within the Ireland tax jurisdiction. The Company will continue to monitor the likelihood that it will be able to recover the deferred tax assets in the future, including those for which a valuation allowance is still recorded. This determination includes objectively verifiable positive evidence that outweighs potential negative evidence.

A reconciliation of the statutory U.S. federal income tax rate to the Company's effective tax rate is as follows:

	Years Ended December 31,		
	2015	2014	2013
U.S. federal statutory rate	35.0 %	35.0 %	(35.0)%
State, net of federal benefit	—	—	0.1
Stock-based compensation expense	0.5	0.3	4.0
Tax exempt interest	(0.1)	—	(2.6)
Research tax credit and other	(0.3)	(0.3)	(11.2)
Foreign withholding tax	15.7	18.8	292.5
Foreign losses not benefited	—	—	(32.8)
Foreign tax rate differential	(2.8)	(2.2)	(7.4)
Foreign tax credit	(15.3)	(17.9)	—
Change in valuation allowance	(3.0)	(38.7)	491.1
Others	(0.4)	0.4	11.5
Total	29.3 %	(4.6)%	710.2 %

As of December 31, 2015, the Company had federal net operating loss carryforwards of approximately \$15.0 million and state net operating loss carryforwards of approximately \$64.8 million. The federal net operating loss carryforwards are carried over from Ziptronix, Inc., acquired in 2015. The state net operating loss carryforwards are carried over from acquired entities, Siimpel Corporation in 2010 and Ziptronix, Inc. in 2015. These operating loss carryforwards, if not utilized, will begin to expire on various dates beginning in 2016, and will continue to expire through 2031. In addition, the Company has research tax credit carryforwards of approximately \$0.3 million for federal purposes, which were carried over from Ziptronix, Inc. The

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federal research tax credit will start to expire in 2020, and will continue to expire through 2033. The Company also has research tax credit carryforwards of approximately \$5.4 million for state purposes and \$1.3 million for foreign purposes, which under current law will not expire. The Company has \$5.6 million of foreign tax credit carryforwards which will expire in 2023. Under the provisions of the Internal Revenue Code, substantial changes in the Company or its subsidiaries' ownership may limit the amount of net operating loss and research tax credit carryforwards that can be utilized annually in the future to offset taxable income.

In 2015, the Company reduced the California net operating loss carryforwards by \$45.0 million resulting from the Gillette Co. vs. Franchise Tax Board court case that was concluded by the California Supreme Court on December 31, 2015. The California Supreme Court concluded that the Multistate Tax Compact's three factor equal weighted formula apportionment method was an improper method, and the single sales factor method enacted in 2011 was held to be the proper method to apportion income to California. Accordingly, the Company reduced its California net operating loss carryforward to reflect the California Supreme Court decision. This reduction of California net operating loss carryforwards does not impact the Company's Consolidated Balance Sheet or Consolidated Statement of Operations.

The Company plans to permanently reinvest the unremitted earnings of its non-U.S. subsidiaries except for the Company's Israel subsidiary where the closure of this subsidiary is imminent following the Company's announcement to restructure its DigitalOptics business and cease its MEMS manufacturing operations. The Company has accrued a deferred tax liability of \$0.1 million for the withholding taxes that would arise on the distribution of the Israel subsidiary's earnings.

As of December 31, 2015, unrecognized tax benefits approximated \$3.1 million, (which is included in other long-term liabilities on the Consolidated Balance Sheet), of which \$2.4 million would affect the effective tax rate if recognized. As of December 31, 2014, unrecognized tax benefits approximated \$2.7 million, of which \$1.1 million would affect the effective tax rate if recognized. As of December 31, 2015, it is reasonably possible that unrecognized tax benefits may decrease by \$0.2 million in the next 12 months due to the expected lapse of statute of limitation relating to foreign tax incentives.

The reconciliation of the Company's unrecognized tax benefits for the years ended December 31, 2015, 2014 and 2013 is as follows (in thousands):

	Years Ended December 31,		
	2015	2014	2013
Total unrecognized tax benefits at January 1	\$ 2,734	\$ 5,031	\$ 4,831
Gross increases and decreases due to tax positions taken in prior periods	699	(193)	18
Gross increases and decreases due to tax positions taken in the current period	103	150	290
Gross increases and decreases due to settlements with taxing authorities	—	(2,023)	(87)
Gross increases and decreases due to lapses in applicable statutes of limitations	(465)	(231)	(21)
Total unrecognized tax benefits at December 31	<u>\$ 3,071</u>	<u>\$ 2,734</u>	<u>\$ 5,031</u>

It is the Company's policy to classify accrued interest and penalties related to unrecognized tax benefits in the provision for income taxes. For the years ended December 31, 2015, 2014, and 2013, the Company recognized an insignificant amount of interest and penalties related to unrecognized tax benefits. For the years ended December 31, 2015 and 2014, the Company accrued \$0.5 million and \$0.5 million, respectively, of interest and penalties related to unrecognized tax benefits.

At December 31, 2015, the Company's 2010 through 2015 tax years were open and subject to potential examination in one or more jurisdictions. In addition, in the U.S., any net operating losses or credits that were generated in prior years but utilized in an open year may also be subject to examination. The Company recently completed an Internal Revenue Service examination related to its 2008 and 2009 tax returns which resulted in minimal changes to the statement of operations. The audit was settled last year but the Company is currently disputing the interest calculation for the audit assessment amount. The Company is currently under an Internal Revenue Service examination for the 2010 - 2013 tax years. The Company also is currently under examination in California for the 2011 and 2012 tax years. The Company cannot estimate the financial outcome of the Internal Revenue Service and California examinations. The Company is not currently under foreign income tax examination.

**NOTE 14 – COMMITMENTS AND CONTINGENCIES*****Lease and Purchase Commitments***

The Company leases office and research facilities and office equipment under operating leases which expire at various dates through 2020. The amounts reflected in the table below are for the aggregate future minimum lease payments under non-cancelable facility and equipment operating leases. Under lease agreements that contain escalating rent provisions, lease expense is recorded on a straight-line basis over the lease term. Rent expense for the years ended December 31, 2015, 2014 and 2013 amounted to \$2.1 million, \$3.6 million and \$3.9 million, respectively.

As of December 31, 2015, future minimum lease payments are as follows (in thousands):

	<b>Lease Obligations</b>
2016	\$ 2,317
2017	2,232
2018	2,269
2019	2,103
2020	1,645
Thereafter	—
	<u>\$ 10,566</u>

***Contingencies***

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

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

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

On June 8, 2015, Toshiba removed the action to the U.S. District Court for the Northern District of California.

On June 18, 2015, Toshiba filed its answer, affirmative defenses, and counterclaims to Tessera, Inc.'s complaint. Toshiba alleges counterclaims for declaratory judgment and breach of the implied warranty of good faith and fair dealing. The counterclaims seek, among other things, judicial determinations about the interpretation of the parties' agreement, termination of the agreement, an accounting of the amount of alleged overpayments by Toshiba, restitution, and damages. On July 10, 2015, Tessera, Inc. filed its answer and affirmative defenses to Toshiba's counterclaims.

On October 15, 2015, the Court held an initial case management conference and established the case schedule. An initial summary judgment hearing on contract issues is scheduled for September 22, 2016. The fact discovery cutoff is October 31, 2016, and the expert discovery cutoff is January 23, 2017. A hearing on any remaining motions for summary judgment is set for March 16, 2017. Trial is scheduled to begin on June 19, 2017.

***Other Litigation Matters***

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

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

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

**NOTE 15 – SEGMENT AND GEOGRAPHIC INFORMATION**

In the first quarter of 2014, following the Company's actions to cease manufacturing operations in the DigitalOptics business, the Company determined that it operates its business in one operating segment, focused on the monetization of intellectual property, both internally developed and acquired, through royalties, licenses and other means. Previously, the Company operated in two operating segments - Intellectual Property and DigitalOptics. The Company's chief operating decision maker is the Chief Executive Officer, who reviews financial information presented on a consolidated basis for purposes of making operating decisions and assessing financial performance.

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

	Years Ended December 31,					
	2015		2014		2013	
U.S.	\$ 98,428	36%	\$ 39,448	14%	\$ 41,878	25%
Korea	87,527	32	98,100	35	64,092	37
Taiwan	57,049	21	100,049	36	2,596	2
Other Asia	15,225	6	28,979	10	10,103	6
Japan	9,409	3	10,014	4	48,481	29
Europe and other	5,662	2	2,217	1	1,661	1
	<u>\$ 273,300</u>	<u>100%</u>	<u>\$ 278,807</u>	<u>100%</u>	<u>\$ 168,811</u>	<u>100%</u>

For the years ended December 31, 2015, 2014, and 2013, four, three and three customers, respectively, each accounted for 10% or more of total revenues.

As of December 31, 2015, 2014 and 2013 property and equipment, net, by geographical area are presented below (in thousands):

	Years Ended December 31,		
	2015	2014	2013
U.S.	\$ 3,219	\$ 3,802	\$ 4,725
Europe and other	529	520	931
Taiwan	—	—	2,394
Israel	—	—	1,431
Total	<u>\$ 3,748</u>	<u>\$ 4,322</u>	<u>\$ 9,481</u>

**NOTE 16 – RESTRUCTURING, IMPAIRMENT OF LONG-LIVED ASSETS AND OTHER CHARGES AND GAIN ON SALE OF PATENTS**

In 2013, the Company continued reorganizing the DigitalOptics segment by closing its manufacturing operation in Zhuhai, China, and selling a significant portion of the assets of the Company's Micro-Optics business based in Charlotte, North Carolina. On January 16, 2014, the Company announced a restructuring of its DigitalOptics segment to cease all remaining manufacturing operations resulting in impairment charges related to the Company's long-lived assets. For the year ended December 31, 2013, the Company incurred cumulative charges, which include continuing and discontinued operations in total, of \$5.9 million in severance and \$70.9 million in impairment of long-lived assets and other charges.

In 2014, the Company recorded a gain of \$11.9 million on patents sold in 2014. Prior to the sale, these patents were included in the Company's patent portfolio available for licensing. This gain was partially offset by approximately \$1.5 million in restructuring charges for severance and other facility costs related to reduction in administrative personnel.

For more information regarding these actions, see Note 6 - "*Discontinued Operations*" and Note 9 - "*Goodwill and Identified Intangible Assets*."

**NOTE 17 – BENEFIT PLAN**

The Company maintains a 401(k) retirement savings plan that allows voluntary contributions by all employees upon their hire date. Eligible employees may elect to contribute up to the maximum amount allowed under Internal Revenue Service regulations. The Company can make discretionary contribution under the 401(k) plan. During the years ended December 31, 2015, 2014 and 2013, the Company contributed approximately \$0.4 million, \$0.4 million, and \$0.9 million, respectively, to the 401(k) Plan.

**NOTE 18 – SUBSEQUENT EVENTS**

***Declaration of a Cash Dividend -***

On January 27, 2016, the Board declared a cash dividend of \$0.20 per share of common stock, payable on March 16, 2016, for the stockholders of record at the close of business on February 24, 2016.

***Increase in the Amount Authorized for the Repurchase of the Company's Outstanding Shares of Common Stock -***

In January 2016, the Board authorized an additional \$200.0 million in future repurchases under its stock repurchase program.

**Schedule II. Valuation and Qualifying Accounts for the Years Ended December 31, 2015, 2014 and 2013**

	<b>Balance at Beginning of Year</b>	<b>Charged (Credited) to Expenses</b>	<b>Charged (Credited) to Other Accounts</b>	<b>Balance at End of Year</b>
Deferred income tax asset:				
Valuation allowance				
2013	\$ 14,583	\$ 76,547	\$ —	\$ 91,130
2014	\$ 91,130	\$ (64,043)	\$ —	\$ 27,087
2015	\$ 27,087	\$ (6,485)	\$ (6,750)	\$ 13,852

**SIGNATURES**

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

Dated: February 22, 2016

TESSERA TECHNOLOGIES, INC.

By: /s/ Thomas Lacey

\_\_\_\_\_  
Thomas Lacey  
Chief Executive Officer

**POWER OF ATTORNEY**

Each person whose individual signature appears below hereby authorizes and appoints Thomas Lacey and Robert Andersen, and each of them, with full power of substitution and resubstitution and full power to act without the other, as his true and lawful attorney-in-fact and agent to act in his name, place and stead and to execute in the name and on behalf of each person, individually and in each capacity stated below, and to file any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing, ratifying and confirming all that said attorneys-in-fact and agents or any of them or their or his substitute or substitutes may lawfully do or cause to be done by virtue thereof.

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

<b>Signature</b>	<b>Title</b>	<b>Date</b>
/s/ Thomas Lacey Thomas Lacey	Chief Executive Officer and Director (Principal Executive Officer)	February 22, 2016
/s/ Robert J. Andersen Robert J. Andersen	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	February 22, 2016
/s/ Richard S. Hill Richard S. Hill	Chairman of the Board of Directors	February 22, 2016
/s/ Tudor Brown Tudor Brown	Director	February 22, 2016
/s/ John Chenault John Chenault	Director	February 22, 2016
/s/ George A. Riedel George A. Riedel	Director	February 22, 2016
/s/ Christopher A. Seams Christopher A. Seams	Director	February 22, 2016
/s/ Donald E. Stout Donald E. Stout	Director	February 22, 2016



**EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Exhibit Title</b>
3.1*	Restated Certificate of Incorporation
3.2	Amended and Restated Bylaws, dated September 14, 2011, as amended August 29, 2012, December 19, 2012, March 2, 2013, March 25, 2013, April 29, 2013 and May 22, 2013 (filed as Exhibit 3.2 to the Registrant's Quarterly Report on Form 10-Q, filed on August 6, 2013, and incorporated herein by reference)
3.3	Amendment to the Amended and Restated Bylaws, dated as of April 30, 2015 (filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K, filed on May 5, 2015, and incorporated herein by reference)
3.4	Amendment to the Amended and Restated Bylaws, dated as of January 9, 2016 (filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K, filed on January 14, 2016, and incorporated herein by reference)
4.1*	Specimen Common Stock Certificate
10.1*	Form of Indemnification Agreement between the Registrant and each of its directors and executive officers
10.2+	Employee Stock Purchase Plan, as amended and restated effective July 31, 2013 (filed as Appendix B to the Registrant's Definitive Proxy Statement, filed on April 16, 2013, and incorporated herein by reference)
10.3+	International Employee Stock Purchase Plan, as amended and restated effective January 30, 2013 (filed as Appendix C to the Registrant's Definitive Proxy Statement, filed on April 16, 2013, and incorporated herein by reference)
10.4†*	Limited TCC License Agreement, dated as of October 22, 1996, by and between Tessera, Inc. and Intel Corporation
10.5*	First Amendment to Limited TCC License Agreement, dated as of October 1, 2000, by and between Tessera, Inc. and Intel Corporation
10.6†*	Second Amendment to Limited TCC License Agreement, dated as of March 22, 2002, by and between Tessera, Inc. and Intel Corporation
10.7†*	Patent License Agreement, dated as of October 12, 1998, by and between Tessera, Inc. and Sharp Corporation
10.8†*	Immunity Agreement, dated as of January 24, 2002, by and between Tessera, Inc., and Sharp Corporation
10.9†*	License Agreement, dated as of January 1, 2002, by and between Tessera, Inc. and Texas Instruments, Inc.
10.10†*	Third Amendment to Limited TCC License Agreement, dated as of September 10, 2003, by and between Tessera, Inc. and Intel Corporation
10.11+	Tessera Technologies, Inc. 2012 Performance Bonus Plan for Executive Officers and Key Employees (filed as Appendix A to the Registrant's Definitive Proxy Statement, filed on February 17, 2012 and incorporated herein by reference)
10.12+	Sixth Amended and Restated 2003 Equity Incentive Plan (filed as Appendix A to the Registrant's Definitive Proxy Statement, filed March 18, 2015, and incorporated herein by reference)
10.13+	Form of Stock Option Agreement for the Tessera Technologies, Inc. Fourth Amended and Restated 2003 Equity Incentive Plan (filed as Exhibit 10.2 to the Registrant's Registration Statement on Form S-8, filed June 13, 2008, and incorporated herein by reference)
10.14+	Form of Stock Option Agreement for the Tessera Technologies, Inc. Fifth Amended and Restated 2003 Equity Incentive Plan (filed as Exhibit 10.2 to the Registrant's Registration Statement on Form S-8, filed August 6, 2010, and incorporated herein by reference)
10.15+	Form of Stock Option Agreement (Board) for the Tessera Technologies, Inc. Fifth Amended and Restated 2003 Equity Incentive Plan (filed as Exhibit 10.3 to the Registrant's Registration Statement on Form S-8, filed August 6, 2010, and incorporated herein by reference)

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- 10.16+ Form of Stock Option Agreement (Romania) for the Tessera Technologies, Inc. Fifth Amended and Restated 2003 Equity Incentive Plan (filed as Exhibit 10.4 to the Registrant's Registration Statement on Form S-8, filed August 6, 2010, and incorporated herein by reference)
- 10.17+ Form of Stock Option Agreement (International) for the Tessera Technologies, Inc. Fifth Amended and Restated 2003 Equity Incentive Plan (filed as Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q, filed November 4, 2010, and incorporated herein by reference)
- 10.18+ Form of Stock Option Agreement for the Tessera Technologies, Inc. Sixth Amended and Restated 2003 Equity Incentive Plan (filed as Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q, filed August 5, 2015, and incorporated herein by reference)
- 10.19+ Form of Restricted Stock Agreement for the Tessera Technologies, Inc. Fourth Amended and Restated 2003 Equity Incentive Plan (filed as Exhibit 10.3 to the Registrant's Registration Statement on Form S-8, filed June 13, 2008, and incorporated herein by reference)
- 10.20+ Form of Restricted Stock Agreement for the Tessera Technologies, Inc. Fifth Amended and Restated 2003 Equity Incentive Plan (filed as Exhibit 10.5 to the Registrant's Registration Statement on Form S-8, filed August 6, 2010, and incorporated herein by reference)
- 10.21+ Form of Restricted Stock Agreement (Israel) for the Tessera Technologies, Inc. Fifth Amended and Restated 2003 Equity Incentive Plan (filed as Exhibit 10.6 to the Registrant's Registration Statement on Form S-8, filed August 6, 2010, and incorporated herein by reference)
- 10.22+ Form of Restricted Stock Agreement (Romania) for the Tessera Technologies, Inc. Fifth Amended and Restated 2003 Equity Incentive Plan (filed as Exhibit 10.7 to the Registrant's Registration Statement on Form S-8, filed August 6, 2010, and incorporated herein by reference)
- 10.23+ Form of Restricted Stock Agreement for the Tessera Technologies, Inc. Sixth Amended and Restated 2003 Equity Incentive Plan (filed as Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q, filed August 5, 2015, and incorporated herein by reference)
- 10.24+ Form of Deferred Stock Agreement for the Tessera Technologies, Inc. Fourth Amended and Restated 2003 Equity Incentive Plan (filed as Exhibit 10.4 to the Registrant's Registration Statement on Form S-8, filed June 13, 2008, and incorporated herein by reference)
- 10.25+ Form of Deferred Stock Agreement for the Tessera Technologies, Inc. Fifth Amended and Restated 2003 Equity Incentive Plan (filed as Exhibit 10.8 to the Registrant's Registration Statement on Form S-8, filed August 6, 2010, and incorporated herein by reference)
- 10.26+ Form of Deferred Stock Agreement (Performance Vesting) for the Tessera Technologies, Inc. Fifth Amended and Restated 2003 Equity Incentive Plan (filed as Exhibit 10.9 to the Registrant's Registration Statement on Form S-8, filed August 6, 2010, and incorporated herein by reference)
- 10.27+ Form of Deferred Stock Agreement (Ireland) for the Tessera Technologies, Inc. Fifth Amended and Restated 2003 Equity Incentive Plan (filed as Exhibit 10.10 to the Registrant's Registration Statement on Form S-8, filed August 6, 2010, and incorporated herein by reference)
- 10.28+ Form of Deferred Stock Agreement (Israel) for the Tessera Technologies, Inc. Fifth Amended and Restated 2003 Equity Incentive Plan (filed as Exhibit 10.11 to the Registrant's Registration Statement on Form S-8, filed August 6, 2010, and incorporated herein by reference)
- 10.29+ Form of Deferred Stock Agreement (International) for the Tessera Technologies, Inc. Fifth Amended and Restated 2003 Equity Incentive Plan (filed as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q, filed November 4, 2010, and incorporated herein by reference)
- 10.30+ Tessera Technologies, Inc. International Employee Stock Purchase Plan (filed as Exhibit 10.7 to the Registrant's Registration Statement on Form S-8, filed June 13, 2008, and incorporated herein by reference)
- 10.31+ Employment Letter, dated December 9, 2013, by and between the Registrant and Thomas Lacey (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed on December 11, 2013, and incorporated herein by reference)
- 10.32+ Severance Agreement, dated December 9, 2013, by and between the Registrant and Thomas Lacey (filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K, filed on December 11, 2013, and incorporated herein by reference)
- 10.33+ Change in Control Severance Agreement, dated December 9, 2013, by and between the Registrant and Thomas Lacey (filed as Exhibit 10.3 to the Registrant's Current Report on Form 8-K, filed on December 11, 2013, and incorporated herein by reference)

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10.34+	Employment Letter, dated December 19, 2013, by and between the Registrant and Robert Andersen (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed on January 3, 2014, and incorporated herein by reference)
10.35+	Form of Amended and Restated Severance Agreement by and between the Registrant and its other executive officers (filed as Exhibit 10.3 to the Registrant's Current Report on Form 8-K, filed on November 3, 2015, and incorporated herein by reference)
10.36+	Form of Amended and Restated Change in Control Severance Agreement by and between the Registrant and its other executive officers (filed as Exhibit 10.4 to the Registrant's Current Report on Form 8-K, filed on November 3, 2015, and incorporated herein by reference)
10.37+	Non-Employee Director Compensation Policy (filed as Exhibit 10.51 to the Registrant's Annual Report on Form 10-K, filed on March 3, 2014, and incorporated herein by reference)
21.1	List of subsidiaries
23.1	Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm
24.1	Power of Attorney (see signature page to this Annual Report on Form 10-K)
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934
32.1	Certification of the Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

† Confidential treatment has been granted as to certain portions of this agreement.

+ Indicates a management contract or compensatory plan or arrangement.

\* Filed as exhibits to Tessera Technologies, Inc.'s Registration Statement on Form S-1 (SEC File No. 333-108518), effective November 12, 2003, and incorporated herein by reference.

\*\* The exhibits and schedules to this agreement have been omitted in reliance on Item 601(b)(2) of Regulation S-K promulgated by the SEC, and a copy thereof will be furnished supplementally to the SEC upon its request. Readers are cautioned that the representations and warranties set forth in this agreement are qualified by those schedules, and should not be relied upon as accurate or complete without reference to those schedules

**SUBSIDIARIES OF THE REGISTRANT**

DigitalOptics Corporation, a Delaware corporation

DigitalOptics Corporation Asia Limited, a company organized under the laws of Hong Kong

DigitalOptics Corporation Israel Limited, a company organized under the laws of Israel

DigitalOptics Corporation Korea Limited, a company organized under the laws of Republic of Korea

DigitalOptics Corporation MEMS, a Delaware corporation

DigitalOptics Corporation Technology Zhuhai Co., Ltd., a company organized under the laws of the People's Republic of China

FotoNation Corporation, a Delaware corporation

FotoNation Limited, an Irish limited corporation

FotoNation SRL, a Romanian limited liability corporation

FotoNation UK Limited, a company incorporated in England

FotoNation Taiwan Co., Ltd.

Invensas Corporation, a Delaware corporation

Tessera, Inc., a Delaware corporation

Tessera Advanced Technologies, Inc., a Delaware corporation

Tessera Electronic Miniaturization Technical Services (Shanghai) Limited, a company organized under the laws of the People's Republic of China

Tessera Global Services, Inc., a Delaware corporation

Tessera Intellectual Property Corp., a Delaware corporation

Ziptronix, Inc., a Delaware corporation

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Forms S-8 (No. 333-195948, 333-190138, 333-168597, 333-151659, 333-137933, 333-131457, 333-116369, 333-115311, 333-112238) of Tessera Technologies, Inc. of our report dated February 22, 2016 relating to the consolidated financial statements, financial statement schedule, and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

San Jose, CA

February 22, 2016

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

I, Thomas Lacey, certify that:

1. I have reviewed this annual report on Form 10-K of Tessera Technologies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 22, 2016

/s/ Thomas Lacey

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Thomas Lacey

Chief Executive Officer

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

I, Robert Andersen, certify that:

1. I have reviewed this annual report on Form 10-K of Tessera Technologies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 22, 2016

/s/ Robert Andersen

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Robert Andersen

Executive Vice President and Chief Financial Officer

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

In connection with the Annual Report of Tessera Technologies, Inc., a Delaware corporation (the "Company"), on Form 10-K for the year ended December 31, 2015 as filed with the Securities and Exchange Commission (the "Report"), I, Thomas Lacey, Chief Executive Officer, certify, pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Thomas Lacey

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Thomas Lacey  
Chief Executive Officer  
February 22, 2016

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

In connection with the Annual Report of Tessera Technologies, Inc, a Delaware corporation (the "Company"), on Form 10-K for the year ended December 31, 2015 as filed with the Securities and Exchange Commission (the "Report"), I, Robert Andersen, Chief Financial Officer of the Company, certify, pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Robert Andersen

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Robert Andersen  
Executive Vice President and Chief Financial Officer  
February 22, 2016

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