

# RPX CORP

## FORM 10-Q (Quarterly Report)

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Telephone	866-779-7641
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Industry	Business Support Services
Sector	Industrials
Fiscal Year	12/31

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

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**FORM 10-Q**

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QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended March 31, 2017

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number: 001-35146

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RATIONAL PATENT\*  
**RPX Corporation**

(Exact Name of Registrant as Specified in Its Charter)

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**Delaware**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**One Market Plaza, Suite 800  
San Francisco, California 94105**  
(Address of Principal Executive Offices and Zip Code)

**26-2990113**  
(I.R.S. Employer Identification  
No.)

**(866) 779-7641**  
(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company

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

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

There were 48,677,111 shares of the registrant's common stock issued and outstanding as of April 28, 2017.

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**RPX Corporation**  
**Form 10-Q Quarterly Report**

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements (unaudited)

RPX Corporation  
Condensed Consolidated Balance Sheets  
(in thousands)  
(unaudited)

	March 31, 2017	December 31, 2016
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 158,323	\$ 100,111
Short-term investments	68,283	90,877
Restricted cash	653	500
Accounts receivable, net	37,276	64,395
Prepaid expenses and other current assets	9,020	4,524
Total current assets	273,555	260,407
Patent assets, net	204,365	212,999
Property and equipment, net	6,554	6,948
Intangible assets, net	53,894	56,050
Goodwill	152,139	151,322
Restricted cash, less current portion	965	965
Deferred tax assets	36,450	38,261
Other assets	9,595	8,337
Total assets	\$ 737,517	\$ 735,289
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Accounts payable	\$ 2,436	\$ 3,197
Accrued liabilities	10,934	16,798
Deferred revenue	127,750	118,856
Current portion of long-term debt	7,099	6,474
Other current liabilities	1,316	1,484
Total current liabilities	149,535	146,809
Deferred revenue, less current portion	8,477	11,552
Deferred tax liabilities	3,882	4,023
Long-term debt, less current portion	86,335	88,110
Other liabilities	10,592	10,514
Total liabilities	258,821	261,008
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Common stock	5	5
Additional paid-in capital	363,317	360,462
Retained earnings	130,830	130,249
Accumulated other comprehensive loss	(15,456)	(16,435)
Total stockholders' equity	478,696	474,281
Total liabilities and stockholders' equity	\$ 737,517	\$ 735,289

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

**RPX Corporation**  
**Condensed Consolidated Statements of Operations**  
**(in thousands, except per share data)**  
**(unaudited)**

	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
Revenue	\$ 82,512	\$ 79,735
Cost of revenue	51,298	47,666
Selling, general and administrative expenses	21,121	26,895
Operating income	10,093	5,174
Interest and other income (expense), net:		
Interest income	165	84
Interest expense	(908)	(350)
Other income (expense), net	210	2,071
Total interest and other income (expense), net	(533)	1,805
Income before provision for income taxes	9,560	6,979
Provision for income taxes	3,567	2,742
Net income	\$ 5,993	\$ 4,237
Net income per share:		
Basic	\$ 0.12	\$ 0.08
Diluted	\$ 0.12	\$ 0.08
Weighted-average shares used in computing net income per share:		
Basic	48,676	52,063
Diluted	49,305	52,616

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

**RPX Corporation**  
**Condensed Consolidated Statements of Comprehensive Income**  
**(in thousands)**  
**(unaudited)**

	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
Net income	\$ 5,993	\$ 4,237
Other comprehensive income, net of tax:		
Unrealized holding gains on available-for-sale securities arising during the period, net of tax	51	151
Foreign currency translation adjustments	928	931
Comprehensive income	<u>\$ 6,972</u>	<u>\$ 5,319</u>

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

**RPX Corporation**  
**Condensed Consolidated Statements of Cash Flows**  
(in thousands)  
(unaudited)

	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>Operating activities</b>		
Net income	\$ 5,993	\$ 4,237
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	42,929	44,555
Stock-based compensation	2,734	4,929
Excess tax benefit from stock-based compensation	—	(23)
Amortization of premium on investments	471	549
Deferred income taxes	2,109	690
Unrealized foreign currency gain	(169)	(158)
Fair value adjustments on deferred payment obligation	—	(1,920)
Other	(484)	152
Changes in assets and liabilities, net of business acquired:		
Accounts receivable	27,815	(19,277)
Prepaid expenses and other assets	(5,572)	4,508
Accounts payable	(819)	144
Accrued and other liabilities	(5,624)	(7,495)
Deferred revenue	5,819	24,238
Net cash provided by operating activities	<u>75,202</u>	<u>55,129</u>
<b>Investing activities</b>		
Purchases of investments	(3,875)	(1,000)
Maturities of investments	25,875	35,136
Sales of investments	—	145,925
Business acquisition, net of cash acquired	—	(228,453)
Increase in restricted cash	(153)	(152)
Purchases of property and equipment	(362)	(983)
Acquisitions of patent assets	(31,379)	(16,048)
Net cash used in investing activities	<u>(9,894)</u>	<u>(65,575)</u>
<b>Financing activities</b>		
Proceeds from issuance of term debt	—	100,000
Payment of debt issuance costs	—	(2,003)
Repayment of principal on term debt	(1,250)	—
Proceeds from exercise of stock options	422	79
Taxes paid related to net-share settlements of restricted stock units	(1,708)	(993)
Excess tax benefit from stock-based compensation	—	23
Payments of capital leases	(104)	(99)
Repurchase of common stock	(4,491)	(23,853)
Net cash provided by (used in) financing activities	<u>(7,131)</u>	<u>73,154</u>
Foreign-currency effect on cash and cash equivalents	35	22
Net increase in cash and cash equivalents	58,212	62,730
Cash and cash equivalents at beginning of period	100,111	94,983
Cash and cash equivalents at end of period	<u>\$ 158,323</u>	<u>\$ 157,713</u>
<b>Non-cash investing and financing activities</b>		
Change in patent assets purchased and accrued but not paid	<u>\$ 250</u>	<u>\$ (200)</u>
Change in fixed assets purchased and accrued but not paid	<u>\$ (46)</u>	<u>\$ —</u>

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



**RPX Corporation**  
**Notes to Condensed Consolidated Financial Statements**  
**(unaudited)**

**1. Nature of Business**

RPX Corporation (also referred to herein as “RPX” or the “Company”) helps companies reduce patent litigation risk and corporate legal expense through two primary service offerings: its patent risk management services and its discovery services.

The Company's patent risk management services help companies reduce patent-related risk and expense through subscription-based patent risk management services that facilitate more efficient exchanges of value between owners and users of patents compared to transactions driven by actual or threatened litigation. The Company's patent risk management membership clients pay an annual subscription fee and in return, receive access to substantially all of the Company's patent portfolio as well as an array of services provided throughout their membership. Access to these services is available primarily through discussions with the Company's professionals—particularly client relations and its team of patent experts, as well as through a proprietary database, and attendance at periodic conferences.

In addition to its subscription-based patent risk management services, the Company underwrites patent infringement liability insurance policies to insure against certain costs of litigation. The Company uses a reinsurance subsidiary company to assume a portion of the underwriting risk on the insurance policies that the Company issues on behalf of a Lloyd's of London underwriting syndicate. As of and for the three months ended March 31, 2017, the effect of the insurance policies that the Company has issued or assumed through its reinsurance business was not material to the Company's results of operations, financial condition or cash flows.

In January 2016, the Company acquired Inventus Solutions, Inc. ("Inventus"), now a wholly owned subsidiary of the Company, and began offering its discovery services, which consist of technology-enabled services to assist law firms and corporate legal departments manage costs and risks related to the litigation discovery process. The Company's discovery services include data hosting and backup, data processing and collection, project management, document review, and traditional document production. All of these services are designed to streamline the administration of litigation, investigations, and regulatory compliance.

**2. Basis of Presentation and Significant Accounting Policies**

***Basis of Presentation***

The accompanying condensed consolidated balance sheet as of March 31, 2017, the condensed consolidated statements of operations, the condensed consolidated statements of comprehensive income, and the condensed consolidated statements of cash flows for the three months ended March 31, 2017 and 2016, are unaudited. The condensed consolidated balance sheet as of December 31, 2016 was derived from the audited consolidated financial statements which are included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016, which was filed with the U.S. Securities and Exchange Commission (“SEC”) on February 28, 2017. The unaudited condensed consolidated financial statements should be read in conjunction with the audited financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America and with the instructions for Form 10-Q and Regulation S-X for interim financial statements. Accordingly, they do not include all of the information and notes required for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring items, necessary to state fairly the results of the interim periods have been included in the accompanying financial statements. Operating results for the three months ended March 31, 2017 are not necessarily indicative of the results that may be expected for any subsequent interim period or for the year ending December 31, 2017.

***Significant Accounting Policies***

There have been no material changes to the Company's significant accounting policies during the three months ended March 31, 2017, as compared to the significant accounting policies presented under the heading “Basis of Presentation and Significant Accounting Policies” in Note 2 of the Notes to Consolidated Financial Statements in Part II, Item 8 of the Company's Annual Report on Form 10-K filed with the SEC on February 28, 2017.

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-09, *Compensation – Stock Compensation (Topic 718)* ("ASU 2016-09"). ASU 2016-09 identifies areas for simplification involving several aspects of accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, an option to recognize gross stock compensation expense with actual

forfeitures recognized as they occur, as well as certain classifications on the statement of cash flows. The amendments in this update became effective in the first quarter of 2017. The Company adopted this standard on January 1, 2017 and the standard did not have a material impact on its consolidated financial statements.

#### **Recent Accounting Pronouncements**

In March 2017, the FASB issued ASU No. 2017-08, *Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities* (“ASU 2017-08”), which shortens the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. For public entities, ASU 2017-08 is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

In February 2017, the FASB issued ASU No. 2017-05, *Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets: Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets*. This ASU was issued to clarify the scope of the previous standard and to add guidance for partial sales of nonfinancial assets and is effective for fiscal years and interim periods within those years beginning after December 15, 2017. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles - Goodwill and Other: Simplifying the Test for Goodwill Impairment*, which simplifies the subsequent measurement of goodwill and eliminates the two-step goodwill impairment test. Under the new guidance, an annual or interim goodwill impairment test is performed by comparing the fair value of a reporting unit with its carrying amount, and an impairment charge is recognized for the amount by which the carrying amount exceeds the reporting unit’s fair value. The amendment also eliminates the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and two-step goodwill impairment test. The ASU is effective prospectively for fiscal years and interim periods within those years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company will early adopt this ASU for goodwill impairment tests beginning in 2017.

In January 2017, the FASB issued ASU No. 2017-01, *Business Combinations: Clarifying the Definition of a Business*, which provides a more robust framework to use in determining when a set of assets and activities is a business. This ASU is effective prospectively for fiscal years and interim periods within those years beginning after December 15, 2017. The Company will apply this guidance to applicable transactions after the adoption date.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* (“ASU 2014-09”), which will supersede most existing revenue recognition guidance in U.S. GAAP once it becomes effective. ASU 2014-09 requires an entity to recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. ASU 2014-09 defines a five-step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP 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. Entities have the option of using either a full retrospective or modified retrospective approach to adopt the new standard. In March 2016, the FASB issued ASU 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*, which clarifies the implementation guidance for gross versus net considerations in ASU 2014-09. In April 2016, the FASB issued ASU 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*, which amends the guidance in ASU 2014-09 related to identifying performance obligations and accounting for licenses of intellectual property. In May 2016, the FASB issued ASU 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*, which provides clarification on assessing the collectability criterion, presentation of sales taxes, measurement date for noncash consideration, and completed contracts at transition. In December 2016, the FASB issued ASU 2016-20, *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers*, which provides various technical corrections and clarifications to ASU 2014-09. All of these aforementioned ASUs will be effective for annual and interim periods beginning after December 15, 2017 and early adoption is permitted for annual and interim periods beginning after December 15, 2016. The Company expects to complete its assessment process, including identifying its performance obligations and selecting a transition method for adoption, by the end of the second quarter of 2017 along with its implementation process prior to the adoption of this ASU on January 1, 2018.

### 3. Net Income Per Share

Basic and diluted net income per share are computed by dividing net income by the weighted-average number of shares of common stock outstanding during the period. Diluted net income per share is computed by using the weighted-average number of shares of common stock outstanding during the period, including potentially dilutive shares. Potentially dilutive shares include outstanding stock options and restricted stock units ("RSUs"). The dilutive effect of potentially dilutive shares is reflected in diluted earnings per share by application of the treasury stock method. Under the treasury stock method, an increase in the fair value of the Company's common stock can result in a greater dilutive effect from potentially dilutive shares.

The following table presents the calculation of basic and diluted net income per share (in thousands, except per share data):

	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
Numerator:		
Net income	\$ 5,993	\$ 4,237
Denominator:		
Basic shares:		
Weighted-average shares used in computing basic net income per share	48,676	52,063
Diluted shares:		
Weighted-average shares used in computing basic net income per share	48,676	52,063
Dilutive effect of stock options and restricted stock units using the treasury-stock method	629	553
Weighted-average shares used in computing diluted net income per share	49,305	52,616
Net income per share:		
Basic	\$ 0.12	\$ 0.08
Diluted	\$ 0.12	\$ 0.08

The following securities were not included in the calculation of diluted shares outstanding as the effect would have been anti-dilutive (in thousands):

	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
Outstanding weighted-average:		
Stock options	718	805
Restricted stock units	765	2,559

#### 4. Financial Instruments

The following tables present the Company's financial assets and liabilities measured at fair value on a recurring basis (in thousands):

<b>March 31, 2017</b>							
	<b>Amortized Cost</b>	<b>Unrealized</b>		<b>Estimated Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
		<b>Gains</b>	<b>Losses</b>				
<b>Cash equivalents:</b>							
Commercial paper	\$ 22,992	\$ —	\$ —	\$ 22,992	\$ —	\$ 22,992	\$ —
Money market funds	9,934	—	—	9,934	9,934	—	—
Municipal bonds	4,249	—	—	4,249	—	4,249	—
U.S. government and agency securities	8,998	—	—	8,998	—	8,998	—
	<u>\$ 46,173</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 46,173</u>	<u>\$ 9,934</u>	<u>\$ 36,239</u>	<u>\$ —</u>
<b>Short-term investments:</b>							
Commercial paper	\$ 2,099	\$ —	\$ —	\$ 2,099	\$ —	\$ 2,099	—
Corporate bonds	8,549	—	(6)	8,543	—	8,543	—
Equity securities	123	—	(70)	53	53	—	—
Municipal bonds	39,563	3	(22)	39,544	—	39,544	—
U.S. government and agency securities	18,052	—	(8)	18,044	—	18,044	—
	<u>\$ 68,386</u>	<u>\$ 3</u>	<u>\$ (106)</u>	<u>\$ 68,283</u>	<u>\$ 53</u>	<u>\$ 68,230</u>	<u>\$ —</u>
<b>December 31, 2016</b>							
	<b>Amortized Cost</b>	<b>Unrealized</b>		<b>Estimated Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
		<b>Gains</b>	<b>Losses</b>				
<b>Cash equivalents:</b>							
Money market funds	\$ 30,286	\$ —	\$ —	\$ 30,286	\$ 30,286	\$ —	\$ —
Municipal bonds	3,070	—	—	3,070	—	3,070	—
	<u>\$ 33,356</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 33,356</u>	<u>\$ 30,286</u>	<u>\$ 3,070</u>	<u>\$ —</u>
<b>Short-term investments:</b>							
Commercial paper	\$ 4,296	\$ —	\$ (3)	\$ 4,293	\$ —	\$ 4,293	\$ —
Corporate bonds	10,856	—	(13)	10,843	—	10,843	—
Equity securities	123	—	(78)	45	45	—	—
Municipal bonds	55,723	—	(65)	55,658	—	55,658	—
U.S. government and agency securities	20,033	9	(4)	20,038	20,038	—	—
	<u>\$ 91,031</u>	<u>\$ 9</u>	<u>\$ (163)</u>	<u>\$ 90,877</u>	<u>\$ 20,083</u>	<u>\$ 70,794</u>	<u>\$ —</u>

The Company's financial investments are generally classified as available-for-sale. Available-for-sale securities are reported at fair value, with unrealized gains and losses, net of tax, included as a separate component of stockholders' equity within accumulated other comprehensive loss. Realized gains and losses on these securities are included in interest and other income (expense), net in the Company's condensed consolidated statements of operations and have not been material for all periods presented.

As of March 31, 2017 and December 31, 2016, approximately 100% and 96%, respectively, of the Company's marketable security investments mature within one year and nil and 4%, respectively, mature within one to five years. As of March 31, 2017, no individual securities incurred continuous unrealized losses for greater than 12 months.

**5. Patent Assets, Net**

Patent assets, net, consisted of the following (in thousands):

	December 31, 2016	Additions	Disposals	March 31, 2017
Patent assets	\$ 932,283	\$ 31,130	\$ (820)	\$ 962,593
Accumulated amortization	(719,284)	(39,758)	814	(758,228)
Patent assets, net	<u>\$ 212,999</u>			<u>\$ 204,365</u>

The Company's acquired patent assets relate to technologies used or supplied by companies in a variety of market sectors, including consumer electronics, e-commerce, financial services, media distribution, mobile communications, networking, semiconductors, and software. The Company amortizes each acquired patent asset portfolio on a straight-line basis over its estimated economic useful life. As of March 31, 2017, the estimated economic useful lives of the Company's patent assets generally ranged from 24 to 60 months. As of March 31, 2017, the weighted-average estimated economic useful life at the time of acquisition of all patent assets acquired since the Company's inception was 40 months. Patent assets acquired during the three months ended March 31, 2017 had a weighted-average estimated economic useful life at the time of acquisition of 24 months.

As of March 31, 2017, the Company expects amortization expense in future periods to be as follows (in thousands):

2017 (remainder)	\$ 103,641
2018	75,120
2019	21,937
2020	3,667
Total estimated future amortization expense	<u>\$ 204,365</u>

Amortization expense related to the Company's patent assets was \$39.8 million and \$41.8 million for the three months ended March 31, 2017 and 2016, respectively.

**6. Property and Equipment, Net**

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

	March 31, 2017	December 31, 2016
Internal-use software	\$ 8,058	\$ 7,827
Leasehold improvements	2,169	2,169
Computer, equipment and software	5,400	5,204
Furniture and fixtures	935	935
Construction-in-progress	182	183
Total property and equipment, gross	16,744	16,318
Less: Accumulated depreciation and amortization	(10,190)	(9,370)
Total property and equipment, net	<u>\$ 6,554</u>	<u>\$ 6,948</u>

Depreciation and amortization expense related to the Company's property and equipment was \$0.8 million and \$0.6 million for the three months ended March 31, 2017 and 2016, respectively.

**7. Business Combinations**

On January 22, 2016, the Company completed its acquisition of all of the issued and outstanding shares of Inventus, to expand into the litigation discovery services market. The final purchase price for Inventus was approximately \$232 million, net of working capital adjustments, which the Company paid in January 2016. The following table summarizes the cash paid and the estimated fair values of the assets and the liabilities assumed (in thousands) and the estimated useful lives of the acquired identifiable intangible assets:

	<b>Estimated Fair Value</b>	<b>Estimated Useful Life</b>
Current assets	\$ 19,357	
Intangible assets:		
Customer relationships	58,000	9 - 10 years
Trademarks	3,200	1 - 6 years
Developed technology	6,400	3 years
Goodwill	145,984	
Property, plant, equipment and other long-term assets	3,347	
Deferred tax asset	10,595	
Current liabilities	(7,280)	
Deferred tax liability	(5,477)	
Other long-term liabilities	(826)	
Cash purchase consideration paid	<u>\$ 233,300</u>	

The intangible assets acquired are amortized on a straight-line basis which reflects the pattern in which the economic benefits of the intangible assets are expected to be utilized. The goodwill recorded is primarily attributable to the Company's opportunity to expand into the litigation discovery services market and is not deductible for tax purposes. For the three months ended March 31, 2016, the Company recorded acquisition-related costs of \$1.2 million which were expensed as incurred and included in selling, general and administrative expenses in the Company's condensed consolidated statements of operations. The Company has included the financial results of Inventus in its condensed consolidated financial statements which includes revenue of \$18.0 million and operating income of \$1.5 million for the three months ended March 31, 2017 and revenue of \$10.6 million and operating income of \$0.6 million for the three months ended March 31, 2016.

The unaudited pro forma financial information in the table below summarizes the combined results of operations for the Company and Inventus as though the companies had been consolidated as of January 1, 2015, and includes the accounting effects resulting from the acquisition including amortization charges from the acquired intangible assets, \$13.5 million of transaction costs incurred which were directly attributable to the acquisition of Inventus, and elimination of interest expenses and debt issuance and extinguishment costs associated with Inventus's historical debt which was extinguished upon the Company's acquisition of Inventus. This unaudited pro forma information also adjusts for Inventus's acquisition of London-based Unified OS Limited and certain of its affiliates as well as certain assets of Kooby LLP (collectively, "Unified") as though it had been consolidated as of January 1, 2015. These accounting effects do not have any impact on the Company's 2017 financial information. The following unaudited pro forma financial information is for information purposes only and is not necessarily indicative of the results of operations that would have been achieved if the acquisition had taken place as of January 1, 2015 (in thousands, except per share data):

	<b>Three Months Ended March 31,</b>	
	<b>2016</b>	
Revenue	\$	<u>82,675</u>
Net income	\$	<u>4,826</u>
Basic net income per share	\$	<u>0.09</u>
Diluted net income per share	\$	<u>0.09</u>

## 8. Goodwill

The changes in the carrying amounts of goodwill by operating segment were as follows (in thousands):

	Patent Risk Management	Discovery Services	Total
Balance as of December 31, 2016	\$ 19,978	\$ 131,344	\$ 151,322
Foreign currency translation adjustments	—	817	817
Balance as of March 31, 2017	\$ 19,978	\$ 132,161	\$ 152,139

The Company reviews goodwill for impairment at least annually or more frequently if events or changes in circumstances indicate that the carrying value of goodwill may not be recoverable. As of March 31, 2017, no impairment of goodwill had been identified.

## 9. Intangible Assets, Net

Intangible assets, net, consisted of the following (in thousands):

	March 31, 2017			December 31, 2016			
	Weighted- average Life (years)	Carrying Amount	Accumulated Amortization	Net Carrying Amount	Carrying Amount	Accumulated Amortization	Net Carrying Amount
Covenant not to compete	3.0	\$ 1,900	\$ (1,763)	\$ 137	\$ 1,900	\$ (1,604)	\$ 296
Proprietary data and models	3.7	2,100	(2,057)	43	2,100	(2,006)	94
Customer relationships	9.3	55,905	(7,881)	48,024	55,719	(6,323)	49,396
Trademarks	4.9	4,882	(2,575)	2,307	4,879	(2,439)	2,440
Developed technology	3.0	5,842	(2,459)	3,383	5,802	(1,978)	3,824
		\$ 70,629	\$ (16,735)	\$ 53,894	\$ 70,400	\$ (14,350)	\$ 56,050

As of March 31, 2017, the Company expects amortization expense in future periods to be as follows (in thousands):

2017 (remainder)	\$ 6,424
2018	8,247
2019	6,453
2020	6,340
2021	6,340
Thereafter	20,090
Total estimated future amortization expense	\$ 53,894

Amortization expense related to the Company's intangible assets was \$2.3 million and \$2.2 million for the three months ended March 31, 2017 and 2016, respectively.

## 10. Accrued Liabilities

Accrued liabilities consisted of the following (in thousands):

	March 31, 2017	December 31, 2016
Accrued payroll-related expenses	\$ 5,764	\$ 11,516
Accrued expenses	5,170	5,282
Total accrued liabilities	\$ 10,934	\$ 16,798

**11. Debt**

On February 26, 2016, the Company entered into a Credit Agreement (the "Credit Agreement") which provided for a \$100 million five -year term facility (the "Term Facility") and a \$50 million five -year revolving credit facility (the "Revolving Credit Facility"), which remains undrawn as of March 31, 2017 . The Term Facility bears interest which is payable quarterly in arrears at the Company's option equal to either a base rate plus a margin ranging from 1.25% to 1.75% per annum or, at the Company's election, the one-, two-, three-, or six-month London interbank offered rate ("LIBOR") plus a margin ranging from 2.25% to 2.75% per annum, based upon the ratio of the Company's debt to consolidated EBITDA ratio. The outstanding balance on the Term Facility bore interest during the three months ended March 31, 2017 at an average interest rate of 3.3% , which approximates fair value. The Revolving Credit Facility bears a commitment fee on undrawn balances of 0.35% to 0.45% per annum, also based upon the Company's debt to consolidated adjusted EBITDA ratio, that is expensed as incurred. The Credit Agreement contains financial covenants requiring the Company to maintain certain leverage and fixed charge ratios. The Company is compliant with these covenants as of March 31, 2017 . The Credit Agreement also includes limitations on the Company's debt incurrence, dividend payments, and disposal activities.

As of March 31, 2017 , the Term Facility requires principal repayments in accordance with the following schedule (in thousands):

2017 (remainder)	\$	5,625
2018		9,375
2019		11,875
2020		18,125
2021		50,000
Long-term debt, gross		95,000
Unamortized debt issuance costs		(1,566)
Long-term debt, net	\$	93,434
Reported as:		
Current portion of long-term debt	\$	7,099
Long-term debt, less current portion		86,335
Total	\$	93,434

**12. Commitments and Contingencies*****Commitments***

The Company generally does not enter into long-term minimum purchase commitments. Its principal long-term commitments consist of obligations under operating leases for office space. There were no material changes to the Company's contractual obligations or commitments during the three months ended March 31, 2017 as compared to those presented under the heading "Commitments and Contingencies" in Note 12 of the Notes to Consolidated Financial Statements in Part II, Item 8 of the Company's Annual Report on Form 10-K filed with the SEC on February 28, 2017.

Rent expense related to non-cancelable operating leases was \$1.3 million and \$1.2 million for the three months ended March 31, 2017 and 2016 , respectively, net of sublease income of \$0.3 million and \$0.2 million earned during each period, respectively.

***Litigation***

From time to time, the Company may be a party to various litigation claims in the normal course of business. Legal fees and other costs associated with such actions are expensed as incurred. The Company assesses, in conjunction with its legal counsel, the need to record a liability for litigation or contingencies. A liability is recorded when and if it is determined that such a liability for litigation or contingencies is both probable and reasonably estimable. No liability for litigation or contingencies was recorded as of March 31, 2017 or December 31, 2016 .

In April 2016, Sourceprose Corporation filed a complaint in the U.S. District Court for the Western District of Texas against the Company alleging breach of an agreement with the plaintiff to purchase certain patent assets and breach of a non-disclosure agreement with plaintiff. In July 2016, the Court transferred the litigation to the U.S. District Court for the Northern District of California. In November 2016, we moved to dismiss the claims of breach of an assignment of patents. In January 2017, the U.S. District Court for

the Northern District of California dismissed the claims of breach of a patent assignment without prejudice, and allowed the plaintiff to file an amended complaint. The plaintiff filed an amended complaint in February 2017, alleging breach of a non-disclosure agreement, breach of an agreement to assign patents and a breach of a settlement agreement. In March 2017, we moved to dismiss all of the plaintiff's claims, and the hearing on the motion is scheduled for May 2017. The plaintiff seeks monetary damages and specific enforcement of the alleged purchase agreement. We are not currently able to determine whether there is a reasonable possibility that a loss has been incurred, nor can we estimate the potential loss or range of the potential loss that may result from this litigation. The Company is not currently able to determine whether there is a reasonable possibility that a loss has been incurred, nor can we estimate the potential loss or range of the potential loss that may result from this litigation.

In June 2013, Kevin O'Halloran, as Trustee of the Liquidating Trust of Tectonics, Inc. (the "Debtor"), filed a complaint in the U.S. Bankruptcy Court for the Middle District of Florida against the Company and Harris Corporation (the "Defendants"). The complaint alleges that the Defendants are liable under federal and state bankruptcy law regarding fraudulent transfers for the value of a patent portfolio purchased by the Company from Harris Corporation pursuant to an agreement entered into in January 2009, and within four years of the date the Debtor filed its petition in bankruptcy. In February 2015, the Court held a trial and in November 2015 entered judgment in favor of the Defendants. In December 2015, the Debtor filed an appeal of the judgment to the U.S. District Court for the Middle District of Florida. In August 2016, the District Court affirmed the judgment in favor of the Defendants. In September 2016, the Debtor filed an appeal of the judgment to the U.S. Court of Appeals for the Eleventh Circuit. The appellate briefing was completed in January 2017, and the parties are currently awaiting scheduling of oral argument. The Company is not currently able to determine whether there is a reasonable possibility that a loss has been incurred, nor can it estimate the potential loss or range of the potential loss that may result from this litigation.

In March 2012, Cascades Computer Innovations LLC filed a complaint in U.S. District Court for the Northern District of California (the "Court") against the Company and five of its clients (collectively the "Defendants"). The complaint alleges that the Defendants violated federal antitrust law, California antitrust law and California unfair competition law. The complaint further alleges that after the Company terminated its negotiations with the plaintiff to license certain patents held by the plaintiff, the Defendants violated the law by jointly refusing to negotiate or accept licenses under the plaintiff's patents. The plaintiff seeks unspecified monetary damages and injunctive relief. In January 2013, the Court dismissed the complaint against the Defendants and granted the plaintiff leave to amend its complaint. In February 2013, the plaintiff filed an amended lawsuit alleging that the Defendants violated federal antitrust law, California antitrust law and California unfair competition law. In April 2016, the Court entered a final judgment in favor of the Defendants on all the plaintiff's claims. In April 2016, the plaintiff filed an appeal of the judgment. The appellate briefing was completed in November 2016, and the parties are currently awaiting the scheduling of oral argument. The Company is not currently able to determine whether there is a reasonable possibility that a loss has been incurred, nor can it estimate the potential loss or range of the potential loss that may result from this litigation.

#### ***Guarantees and Indemnifications***

The Company has, in connection with the sale of patent assets, agreed to indemnify and hold harmless the buyer of such patent assets for losses resulting from breaches of representations and warranties made by the Company. The terms of these indemnification agreements are generally perpetual. The maximum amount of potential future indemnification is unlimited. To date, the Company has not paid any amount to settle claims or defend lawsuits. The Company is unable to reasonably estimate the maximum amount that could be payable under these arrangements since these obligations are not capped but are conditional to the unique facts and circumstances involved. No liability was recorded for these agreements as of March 31, 2017 or December 31, 2016. The Company has no reason to believe that there is any material liability related to such indemnification provisions. The Company does not indemnify its clients for patent infringement.

As part of the Company's discovery services offering, the Company generally warrants that it will perform the services in good faith and in a timely and professional manner, and that it will exercise the same level of professional care commonly found in the industry. Additionally, the Company has agreed to provisions for indemnifying customers against liabilities if its discovery services infringe a third party's intellectual property rights or if it breaches agreed privacy, security and/or confidentiality obligations. To date, the Company has not incurred any material costs, and it has not accrued any liabilities in the accompanying condensed consolidated financial statements, as a result of these obligations. The Company also enters into service-level agreements with its discovery services clients that specify required levels of application uptime and may permit customers to receive credits or to terminate their agreements in the event that the Company fails to meet required performance levels. To date, the Company has not experienced any significant failures to meet defined levels of performance and, as a result, has not accrued any liabilities related to these agreements in its condensed consolidated financial statements.

In accordance with its amended and restated bylaws, the Company also indemnifies certain officers and employees for losses incurred in connection with actions, suits, or proceedings threatened or brought against such officer or employee arising from his or her service to the Company as an officer or employee, subject to certain limitations. The term of the indemnification period is

indefinite. The maximum amount of potential future indemnification is unspecified. The Company has no reason to believe that there is any material liability for actions, events, or occurrences that have occurred to date.

**Reserves for Known and Incurred but not Reported Claims**

The Company offers patent litigation insurance that covers certain costs associated with patent infringement lawsuits, and it assumes a portion of the underwriting risk on these insurance policies that it issues on behalf of a Lloyd's of London underwriting syndicate. As of March 31, 2017 and December 31, 2016, the Company recorded a reserve of \$1.3 million and \$0.9 million, respectively, for known and incurred but not reported claims that represent estimated claim costs and related expenses for the policies underwritten and its portion of the underwriting risk on policies that the Company issued on behalf of the Lloyd's of London underwriting syndicate. The Company regularly reviews loss reserves using a variety of actuarial techniques and updates them as its loss experience develops.

**13. Stockholders' Equity**

**Equity Plans**

A summary of the Company's activity under its equity-settled award plans and related information is as follows (in thousands, except per share data):

	Options Outstanding				
	Shares Available for Grant	Number of Shares	Weighted- average Exercise Price	Weighted- average Remaining Contractual Life in Years	Aggregate Intrinsic Value
Balance - December 31, 2016	3,586	1,768	\$ 11.63		
Shares authorized <sup>(1)</sup>	1,000	—	—		
Options exercised	—	(91)	4.64		
Restricted stock units granted	(943)	—	—		
Restricted stock units forfeited	686	—	—		
Restricted stock units withheld related to net-share settlement of restricted stock units	149	—	—		
Balance - March 31, 2017	<u>4,478</u>	<u>1,677</u>	12.01	2.6	\$ 3,530
Vested and exercisable - March 31, 2017		<u>1,677</u>	12.01	2.6	3,530

<sup>(1)</sup>In the first quarter of 2017, the Company reserved an additional 1.0 million shares of its common stock for future issuance under the 2011 Plan.

The aggregate intrinsic value of stock options exercised during the three months ended March 31, 2017 and 2016 was \$0.7 million and \$0.2 million, respectively. The total grant date fair value of stock options vested during the three months ended March 31, 2017 and 2016 was nil and \$0.6 million, respectively. As of March 31, 2017, all options issued and outstanding are fully vested.

**Restricted Stock Units**

The summary of RSU activity, which includes performance-based restricted stock units ("PBRsUs"), is as follows (in thousands, except per share data):

	Number of Shares	Weighted-Average Grant Date Fair Value	Aggregate Intrinsic Value
Non-vested units - December 31, 2016	3,424	\$ 11.53	
Granted	943	10.73	
Vested	(379)	12.21	
Forfeited	(686)	9.46	
Non-vested units - March 31, 2017	<u>3,302</u>	11.60	\$ 39,637

The total grant date fair value of RSUs vested during the three months ended March 31, 2017 and 2016 was \$4.4 million and \$2.8 million, respectively.

In October 2013, the Board of Directors approved net-share settlement for tax withholdings on RSU vesting. During the three months ended March 31, 2017, the Company withheld issuing 148,893 shares of its common stock based on the value of the RSUs on their vesting dates as determined by the Company's closing common stock price. Total payments to taxing authorities for employees' minimum tax obligations were \$1.7 million for the three months ended March 31, 2017, and were recorded as a reduction to additional paid-in capital and reflected as a financing activity within the condensed consolidated statements of cash flows. The net-share settlements reduced the number of shares that would have otherwise been issued on the vesting date and increased the number of shares reserved for future issuance under the 2011 Plan.

#### ***Stock-Based Compensation Related to Employees and Directors***

The fair value of RSUs granted to employees and directors is measured by reference to the fair value of the underlying shares on the date of grant.

Stock-based compensation expense related to stock options granted to employees and directors was nil and \$0.5 million for the three months ended March 31, 2017 and 2016, respectively. Stock-based compensation expense related to PBRsUs and RSUs granted to employees and directors was \$2.7 million and \$4.5 million for the three months ended March 31, 2017 and 2016, respectively. The Company did not grant any PBRsUs during either three month period ended March 31, 2017 or 2016.

As of March 31, 2017, there was \$34.2 million of unrecognized compensation cost related to RSUs, including PBRsUs, which is expected to be recognized over a weighted-average period of 2.8 years. Future grants of equity awards will increase the amount of stock-based compensation expense to be recorded.

#### ***Stock Repurchase Program***

On February 10, 2015, the Company announced that its Board of Directors had authorized a share repurchase program under which the Company is authorized to repurchase up to \$75.0 million of its outstanding common stock with no expiration date from the date of authorization. In March 2016 and May 2016, the Company increased its share repurchase program by \$25 million and \$50 million, respectively, for a total amount authorized of \$150 million. As of March 31, 2017, the Company repurchased \$90.8 million of the outstanding common stock. Under the program, shares may be purchased in open market transactions, including through block purchases, through privately negotiated transactions, or pursuant to any trading plan that may be adopted in accordance with Rule 10b5-1 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The share repurchase program does not have an expiration date and may be suspended, terminated, or modified at any time for any reason. The Company's share repurchase program does not obligate it to acquire any specific number of shares. The Company repurchased shares of its common stock in the open market, which were retired upon repurchase. The purchase price for the repurchased shares is reflected as a reduction to common stock and retained earnings in the Company's condensed consolidated balance sheet. Share repurchase activity during the period presented was as follows (in thousands, except per share data):

	Shares Repurchased	Average Price per Share	Value of Shares Repurchased
Cumulative repurchase activity as of December 31, 2016	7,917	\$ 10.90	\$ 86,276
Repurchase activity during the period	406	11.06	4,491
Cumulative repurchase activity as of March 31, 2017	8,323	\$ 10.91	\$ 90,767

#### **14. Income Taxes**

The Company uses an estimated annual effective tax rate based upon a projection of its annual fiscal year results to measure the income tax benefit or expense recognized in each interim period. The Company's effective tax rate, including the impact of discrete benefit items, was 37% and 39% for the three months ended March 31, 2017 and 2016, respectively.

The Company's 2013 through 2016 tax periods remain open to examination by the Internal Revenue Service and the 2012 through 2016 tax periods remain open to examination by most state tax authorities. The Internal Revenue Service's examination of Inventus's federal income tax return for fiscal year 2013 was closed during the three months ended March 31, 2017 with no material adjustments. The Company's 2015 through 2016 tax periods remain open to examination in the United Kingdom.

#### **15. Related-Party Transactions**

During the three month periods ended March 31, 2017 and 2016, four and three members, respectively, of the Company's Board of Directors also served on the boards of directors of RPX clients. The Company recognized subscription revenue from these clients in the amount of \$2.9 million and \$2.4 million for the three month periods ended March 31, 2017 and 2016, respectively. The Company recognized selling, general, and administrative expenses from products and services provided by these clients of \$0.2

million and \$0.1 million for the three month periods ended March 31, 2017 and 2016 , respectively. As of March 31, 2017 and December 31, 2016 , there were \$0.4 million and \$1.3 million receivables, respectively, due from these clients.

## **16. Segment Reporting**

Operating segments are components of an enterprise about which separate financial information is available. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker, or decision-making group, in deciding how to allocate resources and in assessing performance. The Company's chief operating decision maker is its Chief Executive Officer. Prior to the acquisition of Inventus in January 2016, the Company's Chief Executive Officer reviewed financial information presented on a consolidated basis and, as a result, the Company concluded that there was only one operating and reportable segment at that time. Subsequent to the acquisition of Inventus (see Note 7, Business Combinations), the Company's Chief Executive Officer reviews separate financial information for the patent risk management and discovery services businesses. Therefore, as of January 2016, the Company has two reportable segments: 1) patent risk management which generates its revenues primarily from membership subscriptions, premiums earned from insurance policies, and management fees for marketing, underwriting, and claim management and 2) discovery services which generates its revenues primarily from fees generated for data collection, hosting and processing, project management, and document review services. There are no material internal revenue transactions between these two reportable segments.

Although adjusted EBITDA is not a measure of financial performance determined in accordance with GAAP, the Company's chief operating decision maker evaluates segment financial performance by utilizing the segment's adjusted EBITDA because the Company believes it is a useful supplemental measure that reflects core operating performance and provides an indicator of the segment's ability to generate cash.

The Company defines adjusted EBITDA as net income exclusive of provision for income taxes, interest and other income (expense), net, stock-based compensation and related employer payroll taxes, depreciation, and amortization. There are limitations in using the Company's measures of financial performance that are not determined in accordance with GAAP and these may be different from other financial measures not determined in accordance with GAAP used by other companies. These financial measures are limited in value because they exclude certain items that may have a material impact on the Company's reported financial results. In addition, they are subject to inherent limitations as they reflect the exercise of judgment by the Company about which items are adjusted to calculate its financial measures not determined in accordance with GAAP. The presentation of financial measures not determined in accordance with GAAP should not be considered in isolation or as a substitute for, or superior to, financial results determined in accordance with GAAP.

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Summarized financial information by segment for the three months ended March 31, 2017 and 2016 utilized by the Company's chief operating decision maker is as follows (in thousands):

	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>Patent Risk Management</b>		
Revenue	\$ 64,486	\$ 69,157
Cost of revenue	41,440	42,632
Selling, general and administrative expenses	14,434	21,934
Operating income	8,612	4,591
Stock-based compensation, including related taxes	2,441	4,934
Depreciation and amortization	40,509	42,657
Adjusted EBITDA	<u>\$ 51,562</u>	<u>\$ 52,182</u>
<b>Discovery Services</b>		
Revenue	\$ 18,026	\$ 10,578
Cost of revenue	9,858	5,034
Selling, general and administrative expenses	6,687	4,961
Operating income	1,481	583
Stock-based compensation, including related taxes	434	88
Depreciation and amortization	2,420	1,898
Adjusted EBITDA	<u>\$ 4,335</u>	<u>\$ 2,569</u>
<b>Consolidated</b>		
Revenue	\$ 82,512	\$ 79,735
Cost of revenue	51,298	47,666
Selling, general and administrative expenses	21,121	26,895
Operating income	<u>\$ 10,093</u>	<u>\$ 5,174</u>

The following table reconciles the Company's subtotal segment adjusted EBITDA to consolidated net income (in thousands):

	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
Subtotal segment adjusted EBITDA	\$ 55,897	\$ 54,751
Depreciation and amortization	(42,929)	(44,555)
Stock-based compensation, including related taxes	(2,875)	(5,022)
Interest and other income (expense), net	(533)	1,805
Provision for income taxes	(3,567)	(2,742)
Net income	<u>\$ 5,993</u>	<u>\$ 4,237</u>

The following table summarizes the Company's total assets by segment (in thousands):

	<b>March 31, 2017</b>	<b>December 31, 2016</b>
Patent risk management	\$ 502,282	\$ 501,540
Discovery services <sup>(1)</sup>	235,235	233,749
Total assets	<u>\$ 737,517</u>	<u>\$ 735,289</u>

<sup>(1)</sup> Includes goodwill and intangible assets acquired through the Company's acquisition of Inventus in January 2016.

The Company markets its solutions to companies around the world. Revenue is attributed to geographic areas based on the country in which the client is domiciled. The following table presents revenue by location and revenue generated by country as a percentage of total revenue for the applicable period, for countries representing 10% or more of revenues for one or more of the periods presented (dollars in thousands):

	<b>Three Months Ended March 31,</b>			
	<b>2017</b>		<b>2016</b>	
United States	\$ 48,241	59%	\$ 47,526	60%
Japan	9,414	11	9,005	11
Rest of world	24,857	30	23,204	29
Total revenue	<u>\$ 82,512</u>	<u>100%</u>	<u>\$ 79,735</u>	<u>100%</u>

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

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K filed with the Securities and Exchange Commission (“SEC”) on February 28, 2017.*

*This Quarterly Report on Form 10-Q contains “forward-looking statements” that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. The statements contained in this Quarterly Report on Form 10-Q that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act. Forward-looking statements are often identified by the use of words such as, but not limited to, “anticipate,” “believe,” “can,” “continue,” “could,” “estimate,” “expect,” “intend,” “may,” “will,” “plan,” “project,” “seek,” “should,” “target,” “will,” “would,” and similar expressions or variations intended to identify forward-looking statements. Forward-looking statements include statements regarding our business strategies and business model, products, benefits to our clients, future financial results and expenses, patent acquisition spending, our acquisition of Inventus, and our competitive position. These statements are based on the beliefs and assumptions of our management based on information that is currently available. Such forward-looking statements are subject to risks, uncertainties, and other important factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include but are not limited to those identified below and those discussed in the section titled “Risk Factors” included in Part II, Item 1A of this Quarterly Report on Form 10-Q and elsewhere in this filing and our Annual Report on Form 10-K filed with the SEC on February 28, 2017. Furthermore, such forward-looking statements speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.*

### Overview

Since our founding in 2008, we have been providing an alternative to litigation through our patent risk management services. In January 2016, through our acquisition of Inventus, we began offering technology-enabled discovery services to our clients.

We help companies reduce patent-related risk and corporate legal expense by providing two primary service offerings: (1) a subscription-based patent risk management service offering that facilitates more efficient exchanges of value between owners and users of patents compared to transactions driven by actual or threatened litigation, and (2) a discovery services offering.

#### *Patent Risk Management*

We serve as a trusted intermediary in the patent marketplace. Our business model aligns our interests with those of our clients, with whom we have developed trusted relationships. Our patent risk management services clients include companies that design, make, or sell technology-based products and services as well as companies that use technology in their businesses, and which face legal claims for patent infringement. We have not asserted and will not assert our patents. We have never initiated patent infringement litigation, and our clients receive guarantees that we will never assert patents against them. We consider this guarantee to be of paramount importance in establishing trust with our clients. In a market with limited publicly available data on pricing and terms of licenses and litigation settlement, we believe our data and market intelligence is a valuable resource for our clients and prospects. In exchange for an upfront annual subscription fee, we provide the following to our patent risk management clients throughout the duration of their membership:

- the review and analysis of patents offered for sale, including analysis of patent quality, validity, and commercial significance;
- defensive patent acquisition, through which we acquire patents and patent rights on behalf of all of our patent risk management clients;
- facilitation of syndicated transactions;
- prior art searches;
- proprietary periodic analysis and publication of patent market trends;
- the tracking of all US patent applications and issuances, patent litigation activity, and associated parties; and
- publication and provision of patent-related data to governmental and regulatory bodies to inform public policy discussion about patent reform and trends.

Access to these services is available primarily through discussions with our professionals—particularly client relations and our team of patent experts, as well as through a proprietary database, and attendance at periodic conferences.

Insuring against the costs of patent infringement litigation is a natural extension of our patent risk management membership. Our patent infringement litigation expense insurance is a liability insurance policy that covers certain costs associated with patent infringement lawsuits. We assume some portion of the underwriting risk on the insurance policies that we issue on behalf of a Lloyd's

of London underwriting syndicate. The effect of the insurance policies that we have issued or assumed through our reinsurance business was not material to our results of operations or financial condition for the three months ended March 31, 2017 or 2016 .

In our defensive patent acquisition activities, we acquire patents, licenses to patents, patent rights and agreements for covenants not to sue, which we collectively refer to as “patent assets.” We measure patent asset acquisition spend on both a “gross” and a “net” basis, whereby the “gross spend” represents the aggregate amount spent including amounts contributed by our clients in syndicated acquisitions above and beyond their subscription fees and the “net spend” represents only the net incremental investment of our own capital. From our inception through March 31, 2017 , we have reviewed over 8,500 patent asset portfolios, completed 404 acquisitions of patent asset portfolios with gross and net patent acquisition spend of \$2.3 billion and \$978.5 million , respectively. During the three months ended March 31, 2017 , we completed 19 acquisitions of patent assets and our gross and net patent acquisition spend totaled \$62.8 million and \$31.1 million , respectively.

During the three months ended March 31, 2017 and 2016 , revenue from our patent risk management services was \$64.5 million and \$69.2 million , respectively. As of March 31, 2017 , our patent risk management segment had more than 300 clients, consisting of our patent risk management network members and insurance clients. We provide patent risk management services to more than 400 companies, including those insured under policies sold to venture funds and industry trade associations.

#### *Discovery Services*

Through our wholly owned subsidiary Inventus, in 2016 we began offering technology-enabled discovery services to assist law firms and corporate legal departments manage costs and risks related to the litigation discovery process. Our discovery service offering focuses on the process of consolidation and organization of data into meaningful discovery information powered by a mix of third-party and proprietary software. This allows our discovery services clients to efficiently and effectively manage a portfolio of litigation discovery matters in a central location.

Our more than 1,000 discovery services clients in approximately a dozen countries benefit from our discovery services, which include data hosting and backup, data processing and collection, project management, document review, and traditional document production. All of these services are designed to streamline the administration of litigation, investigations, and regulatory compliance. During the three months ended March 31, 2017 and 2016 , revenue from our discovery services was \$18.0 million and \$10.6 million , respectively. Certain of our discovery services operations are denominated in currencies other than the U.S. dollar, primarily the British pound sterling and the Euro, and therefore these operations are exposed to foreign exchange rate fluctuations.

### **Key Components of Results of Operations**

#### *Revenue*

Subscription revenue includes membership subscriptions to our patent risk management services, premiums earned, net of ceding commissions, from insurance policies, and management fees related to our insurance business. Historically, the majority of our revenue has consisted of fees paid by our clients under subscription agreements. Subscription revenue will be positively or negatively impacted by the financial performance of our patent risk management clients since their subscription fees typically reset annually based upon their most recently reported annual financial results. In August 2012, we launched our insurance product and started to recognize insurance premium revenue from the insurance policies that we underwrite. As the primary insurer, we had been recognizing the full insurance premium as revenue. In May 2014, we began to assume a portion of the underwriting risk on insurance policies that we issue on behalf of a Lloyd's of London underwriting syndicate, and as a result we recognize only the portion of the underwriting risk that we assume. In addition, we receive management fees for marketing, underwriting, and claims management services. Although we expect this revenue to increase as we sell more insurance policies in the future, for the three months ended March 31, 2017 and 2016 , insurance premium revenue was not material to our results of operations.

We recognize revenue from the sale of licenses and advisory fee income in connection with syndicated acquisitions through our patent risk management services, which we collectively refer to as fee-related revenue. In the future, we may receive other revenue and fee income from newly-introduced products and services. Our fee-related revenue may fluctuate significantly from period to period.

Discovery revenue represents fees generated from services rendered in connection with our discovery services. These services are typically comprised of document collection and processing, document review, document production, and project management, and are generally billed in arrears based on the number of users, amount of data stored, or number of consulting hours. Our discovery revenue may fluctuate significantly based on the project-oriented nature of the discovery services we provide.

We do not believe that our rate of growth since inception is representative of anticipated future revenue growth and we may experience a year-over-year decline in revenue in future periods.

### ***Cost of Revenue***

Cost of revenue from our patent risk management services primarily consists of amortization expenses related to acquired patent assets. Acquired patent assets are capitalized and amortized ratably over their estimated useful lives, which typically relates to the anticipated cash flows from clients and prospects that will benefit from the transaction. Also included in the cost of revenue from our patent risk management service are expenses incurred to maintain our patents, prosecute our patent applications, conduct inter partes reviews and prior art searches, and amortization expense for acquired intangible assets and internally developed software. With the launch of our insurance offering in August 2012, cost of revenue from our patent risk management services began to include premiums ceded to reinsurers and loss reserves. We began to issue new policies under a reinsurance model in May 2014 and under this model we do not cede premiums.

Our cost of revenue from our patent risk management services is primarily driven by the amortization of previously acquired patent assets, which are typically amortized over an estimated useful life of 24 to 60 months. From time to time, we may acquire patent assets that are valuable to our clients and prospects with an estimated useful life that is significantly less than the historical weighted-average of patent assets previously acquired, resulting in increased patent asset amortization expense in periods immediately following the acquisition. Estimating the economic useful lives of our patent assets depends on various factors including whether we acquire patents or licenses to patents, and the remaining statutory life of the underlying patents, either of which could result in shorter amortization periods. We believe that amortization periods of patent assets to be acquired in future periods may be amortized over shorter periods than the historical weighted-average of 40 months, which may cause our cost of revenue to increase. Our cost of revenue from our patent risk management services may fluctuate in the future as it is dependent on the level of patent asset purchases, the amortization period of the patent assets we acquire, and the level of insurance policies we issue.

Cost of revenue from our discovery services primarily consists of compensation costs for employees and third-party contractors who deliver services to our clients, costs incurred to maintain, secure, and store hosted data, license fees for the software we utilize in our discovery services process, and amortization of our identifiable intangible assets for technology used to provide our discovery services to our clients. Our cost of revenue related to hosting data and software license fees is primarily fixed but can fluctuate based on levels of data hosted and number of users our clients choose to have access to the software. Our cost of revenue related to document review services is primarily variable and may fluctuate significantly based on the review services provided to our clients.

### ***Selling, General and Administrative Expenses***

Selling, general and administrative expenses consist of salaries and related expenses, including stock-based compensation expense, amortization related to our intangible assets, cost of marketing programs, legal costs, professional fees, travel costs, facility costs, and other corporate expenses. We expect that in the foreseeable future, selling, general, and administrative expenses may decrease when compared to the prior year period as we seek to effectively manage expenses although such expenses could fluctuate from period to period.

### ***Interest and Other Income (Expense), Net***

Interest and other income (expense), net consists of interest income earned on our cash, cash equivalents, and short-term investments, interest expense incurred on our term debt, gains or losses due to foreign currency fluctuations, as well as changes in fair value of our deferred payment obligations. Our interest and other income (expense), net may fluctuate significantly as our long-term debt bears interest in line with the London interbank offered rate and our results of operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the British pound sterling, Japanese yen, and Euro relative to the U.S. dollar.

### ***Provision for Income Taxes***

Income taxes are computed using the asset and liability method, under which deferred tax assets and liabilities are determined based on the difference between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

### ***Critical Accounting Policies and Estimates***

Our condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, costs and expenses, and related disclosures.

There have been no material changes to our significant accounting policies during the three months ended March 31, 2017, as compared to the significant accounting policies presented under the heading "Basis of Presentation and Significant Accounting

Policies” in Note 2 of the Notes to Consolidated Financial Statements in Part II, Item 8 of our Annual Report on Form 10-K filed with the SEC on February 28, 2017.

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-09, *Compensation – Stock Compensation (Topic 718)* ("ASU 2016-09"). ASU 2016-09 identifies areas for simplification involving several aspects of accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, an option to recognize gross stock compensation expense with actual forfeitures recognized as they occur, as well as certain classifications on the statement of cash flows. The amendments in this update became effective in the first quarter of 2017. We adopted this standard on January 1, 2017 and the standard did not have a material impact on our consolidated financial statements.

#### **Recent Accounting Pronouncements**

Our recent accounting pronouncements are described in more detail in Note 2, "Basis of Presentation and Significant Accounting Policies," in Notes to Condensed Consolidated Financial Statements (unaudited) in Part I, Item 1 of this Quarterly Report on Form 10-Q.

#### **Results of Operations**

The following table sets forth our condensed consolidated statement of operations data for each of the periods indicated, including segment information (in thousands). Our historical results are not necessarily indicative of our results of operations to be expected for any future period.

	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
Revenue		
Patent risk management	\$ 64,486	\$ 69,157
Discovery services	18,026	10,578
Total revenue	<u>82,512</u>	<u>79,735</u>
Cost of revenue		
Patent risk management	41,440	42,632
Discovery services	9,858	5,034
Total cost of revenue	<u>51,298</u>	<u>47,666</u>
Selling, general and administrative expenses		
Patent risk management	14,434	21,934
Discovery services	6,687	4,961
Total selling, general and administrative expenses	<u>21,121</u>	<u>26,895</u>
Operating income		
Patent risk management	8,612	4,591
Discovery services	1,481	583
Total operating income	<u>10,093</u>	<u>5,174</u>
Interest and other income (expense), net	<u>(533)</u>	<u>1,805</u>
Income before provision for income taxes	9,560	6,979
Provision for income taxes	3,567	2,742
Net income	<u>\$ 5,993</u>	<u>\$ 4,237</u>

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The following table sets forth our condensed consolidated statement of operations data as a percentage of total revenue for each of the periods indicated, including segment information.

	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>Revenue</b>		
Patent risk management	78 %	87%
Discovery services	22	13
Total revenue	100	100
<b>Cost of revenue</b>		
Patent risk management	50	53
Discovery services	12	6
Total cost of revenue	62	59
<b>Selling, general and administrative expenses</b>		
Patent risk management	17	28
Discovery services	8	6
Total selling, general and administrative expenses	25	34
<b>Operating income</b>		
Patent risk management	11	6
Discovery services	2	1
Total operating income	13	7
Interest and other income (expense), net	(1)	2
Income before provision for income taxes	12	9
Provision for income taxes	4	3
Net income	8 %	6%

**Three Months Ended March 31, 2017 and 2016**

*Revenue*

The following table sets forth our total revenue for each of the periods indicated, including revenue by segment (in thousands):

	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>Revenue</b>		
Subscription revenue	\$ 63,367	\$ 67,112
Fee-related revenue	1,119	2,045
Total patent risk management revenue	64,486	69,157
Discovery services	18,026	10,578
Total revenue	\$ 82,512	\$ 79,735

Our revenue for the three months ended March 31, 2017 was \$82.5 million compared to \$79.7 million during the same period a year prior, an increase of \$2.8 million, or 4%. Subscription revenue, which includes membership subscriptions to our patent risk management services, premiums earned from insurance policies, and management fees, for the three months ended March 31, 2017 was \$63.4 million compared to \$67.1 million for the three months ended March 31, 2016. The decrease in subscription revenue was primarily attributable to a decrease of \$6.5 million from clients who joined our network prior to March 31, 2016 and, in certain cases, may no longer be a part of our network as of March 31, 2017, partially offset by an increase in membership fees and insurance premiums of \$2.8 million from new clients who joined our network subsequent to March 31, 2016. As of March 31, 2017, our patent risk management segment had more than 300 clients, consisting of patent risk management network members and insurance clients, as compared to approximately 260 clients as of March 31, 2016. We provided patent risk management services to more than 400 companies, including those insured under policies sold to venture funds and industry trade associations as of March 31, 2017, as compared to approximately 290 as of March 31, 2016.

Revenue for the three months ended March 31, 2017 and 2016 included fee-related revenue of \$1.1 million and \$2.0 million , respectively, generated from our patent risk management business.

Discovery revenue, which includes fees generated from data collection, hosting and processing, project management, and document review services, for the three months ended March 31, 2017 was \$18.0 million compared to \$10.6 million in the same period a year prior. The increase is primarily attributable to an increase in fees generated from document review services during the three months ended March 31, 2017 as compared to the prior year period. The increase is also attributable to fees generated from discovery services for a full quarter during the three months ended March 31, 2017 , compared to a partial quarter during the three months ended March 31, 2016 , as we started offering our discovery services through our acquisition of Inventus on January 22, 2016.

#### *Cost of Revenue*

Our cost of revenue for the three months ended March 31, 2017 was \$51.3 million compared to \$47.7 million during the same period a year prior, an increase of \$3.6 million , or 8% . Cost of revenue from our patent risk management services for the three months ended March 31, 2017 was \$41.4 million compared to \$42.6 million for the three months ended March 31, 2016 . The decrease in our cost of revenue from our patent risk management services is primarily attributable to a decrease in patent amortization expense of \$2.0 million primarily due to the impact of decreased patent spending in the year ended December 31, 2016 and the three months ended March 31, 2017 , as compared to the years ended December 31, 2015 and 2014, partially offset by an increase in cost of revenue of \$0.6 million related to our patent infringement litigation insurance.

Cost of revenue from our discovery services for the three months ended March 31, 2017 was \$9.9 million compared to \$5.0 million for the three months ended March 31, 2016 . The increase in our cost of revenue from our discovery services is primarily attributable to an increase in the cost of revenue related to our document review services during the three months ended March 31, 2017 as compared to the prior year period. This increase is also attributable to offering discovery services for a full quarter during the three months ended March 31, 2017 , compared to a partial quarter during the three months ended March 31, 2016 , as we started offering our discovery services through our acquisition of Inventus on January 22, 2016.

#### *Selling, General and Administrative Expenses*

Our selling, general and administrative expenses for the three months ended March 31, 2017 were \$21.1 million compared to \$26.9 million during the same period a year prior, a decrease of \$5.8 million , or 22% . The selling, general and administrative expenses generated from our patent risk management services for the three months ended March 31, 2017 was \$14.4 million compared to \$21.9 million for the three months ended March 31, 2016 . This decrease is primarily attributable to a \$4.4 million decrease in personnel-related costs, including stock-based compensation, due to a decrease in headcount as well as executive management changes during the three months ended March 31, 2017 . This decrease was also due to a \$1.6 million decrease in professional services and a \$0.6 million decrease in our bad debt expense during the three months ended March 31, 2017 as compared to the prior year period.

Selling, general and administrative expenses from our discovery services for the three months ended March 31, 2017 was \$6.7 million compared to \$5.0 million for the three months ended March 31, 2016 . The increase in the selling, general and administrative expenses from our discovery services is primarily attributable to our offering of discovery services for a full quarter during the three months ended March 31, 2017 , compared to a partial quarter during the three months ended March 31, 2016 , as we started offering our discovery services through our acquisition of Inventus on January 22, 2016.

#### *Interest and Other Income (Expense), Net*

Our interest and other expense, net for the three months ended March 31, 2017 was \$0.5 million compared to interest and other income, net of \$1.8 million during the same period a year prior, a decrease of \$2.3 million . The decrease was primarily due to a decrease of \$1.9 million in fair value adjustments on our deferred payment obligations and an increase of \$0.6 million of interest expense incurred on our term debt.

#### *Provision for Income Taxes*

Our provision for income taxes was \$3.6 million and \$2.7 million for the three months ended March 31, 2017 and 2016 . Our effective tax rate, including the impact of discrete items, was 37% and 39% for the three months ended March 31, 2017 and 2016 , respectively.

**Non-GAAP Financial Measures**

We supplement our consolidated financial statements presented on a GAAP basis with non-GAAP adjusted EBITDA less net patent spend as we believe that this non-GAAP measure provides useful information about core operating results and thus is appropriate to enhance the overall understanding of our past financial performance and our prospects for the future. We define non-GAAP adjusted EBITDA as net income exclusive of provision for income taxes, interest and other income (expense), net, stock-based compensation, including employer payroll taxes, depreciation, and amortization. We use this non-GAAP measure to evaluate our financial results and trends, allocate internal resources, prepare and approve our annual budget, develop short- and long-term operating plans, and assess the health of our business. We believe this non-GAAP measure may prove useful to investors who wish to consider the impact of certain items when comparing our financial performance with that of other companies. The adjustments to our GAAP results are made with the intent of providing both management and investors a more complete understanding of our underlying operational results, trends, and performance.

There are limitations in using non-GAAP financial measures because non-GAAP financial measures are not prepared in accordance with GAAP and may be different from non-GAAP financial measures used by other companies. The non-GAAP financial measures are limited in value because they exclude certain items that may have a material impact on our reported financial results. In addition, they are subject to inherent limitations as they reflect the exercise of judgment by management about which items are adjusted to calculate our non-GAAP financial measures. Management compensates for these limitations by analyzing current and future results on a GAAP basis as well as a non-GAAP basis and also by providing GAAP measures in our public disclosures.

The presentation of additional information should not be considered in isolation or as a substitute for or superior to financial results determined in accordance with GAAP. Investors are encouraged to review the reconciliation of these non-GAAP measures to their most directly comparable GAAP financial measure and not to rely on any single financial measure to evaluate our business.

The following table sets forth the reconciliation of net income to non-GAAP adjusted EBITDA less net patent spend for each of the periods indicated (in thousands). Our historical results are not necessarily indicative of our results of operations to be expected for any future period.

	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
Net income	\$ 5,993	\$ 4,237
Provision for income taxes	3,567	2,742
Interest and other (income) expense, net	533	(1,805)
Stock-based compensation, including related taxes	2,875	5,022
Depreciation and amortization	42,929	44,555
Non-GAAP adjusted EBITDA	55,897	54,751
Net patent spend	(31,130)	(16,249)
Non-GAAP adjusted EBITDA less net patent spend	\$ 24,767	\$ 38,502

**Liquidity and Capital Resources**

We have financed substantially all of our operations and patent asset acquisitions through subscription and other fees collected from our clients, patent-seller financing, the sale of equity securities, and from borrowing through term loan facilities. As of March 31, 2017, we had \$158.3 million of cash and cash equivalents and \$68.3 million in short-term investments. In January 2016, we paid aggregate consideration of \$232 million in cash, net of working capital adjustments, at the closing of the Inventus transaction. On February 26, 2016, we entered into a credit agreement for a \$100 million five-year term facility and a \$50 million five-year revolving credit facility, which contains financial covenants requiring us to maintain certain leverage and fixed charge ratios which may impact our spending patterns and limits in the future. As of March 31, 2017, the total balance outstanding on the term facility was \$95.0 million, and the revolving credit facility remains undrawn. Our debt facilities and repayment schedule are described in more detail in Note 11, "Debt," in Notes to Condensed Consolidated Financial Statements (unaudited) in Part I, Item 1 of this Quarterly Report on Form 10-Q.

We believe our existing cash, cash equivalents, and short-term investments will be sufficient to meet our working capital and capital expenditure needs for the foreseeable future. Our future capital needs will depend on many factors, including, among other things, our acquisition of patent assets, addition and renewal of client membership agreements, growth of our insurance and discovery services businesses, and development of new products and services. We may experience fluctuations in patent acquisition spending as we acquire patent assets that will benefit our clients. Our cash used in investing activities may increase in the future as we acquire additional patent assets. Our cash used in financing activities may increase in the future as we execute our stock repurchase program

by purchasing RPX shares. Additionally, we may enter into potential investments in, or acquisitions of, complementary businesses which could require us to seek additional debt or equity financing. Additional funds may not be available on terms favorable to us or at all.

The following table sets forth a summary of our cash flows for the periods indicated (in thousands):

	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
Net cash provided by operating activities	\$ 75,202	\$ 55,129
Net cash used in investing activities	(9,894)	(65,575)
Net cash provided by (used in) financing activities	(7,131)	73,154
Foreign-currency effect on cash and cash equivalents	35	22
Net increase in cash and cash equivalents	<u>\$ 58,212</u>	<u>\$ 62,730</u>

#### ***Cash Flows from Operating Activities***

Cash provided by operating activities for the three months ended March 31, 2017 was \$75.2 million, consisting of adjustments for non-cash items of \$47.6 million, changes in working capital and non-current assets and liabilities of \$21.6 million and net income of \$6.0 million. Non-cash adjustments to net income primarily consisted of \$42.9 million of depreciation and amortization, \$2.7 million of stock-based compensation, \$2.1 million net change in our deferred taxes, and a \$0.5 million of amortization of premium on investments, partially offset by \$0.5 million of other cash reductions and an unrealized gain of \$0.2 million due to foreign currency fluctuations. The change in working capital and non-current assets and liabilities resulted primarily from a \$27.8 million decrease in accounts receivable due to the receipt of payment from a significant patent risk management customer, a \$5.8 million increase in deferred revenue, partially offset by a \$5.6 million decrease in our accrued and other liabilities, an increase in our prepaid expenses and other assets of \$5.6 million, and a \$0.8 million decrease in accounts payable.

Cash provided by operating activities for the three months ended March 31, 2016 was \$55.1 million, consisting of adjustments for non-cash items of \$48.8 million, changes in working capital and non-current assets and liabilities of \$2.1 million and net income of \$4.2 million. Non-cash adjustments to net income primarily consisted of \$44.6 million of depreciation and amortization, \$4.9 million of stock-based compensation, \$0.7 million net decrease in our deferred taxes excluding those acquired through our acquisition of Inventus in January 2016, and \$0.5 million of amortization of premium on investments, partially offset by \$1.9 million of fair value adjustments on our deferred payment obligations and an unrealized gain of \$0.2 million due to foreign currency fluctuations. The change in working capital and non-current assets and liabilities resulted primarily from a \$24.2 million increase in deferred revenue and a \$4.5 million decrease in prepaid expenses and other assets partially offset by a \$19.3 million increase in accounts receivable, a \$7.5 million decrease in our accrued and other liabilities and a \$0.1 million decrease in accounts payable.

#### ***Cash Flows from Investing Activities***

Cash used in investing activities for the three months ended March 31, 2017 was \$9.9 million, of which \$31.4 million was used to acquire patent assets, and \$0.4 million was used to acquire property and equipment, and a \$0.2 million increase in our restricted cash balances, partially offset by \$22.0 million net maturities of short-term investments.

Cash used in investing activities for the three months ended March 31, 2016 was \$65.6 million, of which \$228.5 million was used for the acquisition of Inventus, net of cash received, \$16.0 million was used to acquire patent assets, \$1.0 million was used to acquire property and equipment, and \$0.2 million used to increase our restricted cash balances, partially offset by \$180.1 million net sales and maturities of short-term investments.

#### ***Cash Flows from Financing Activities***

Cash used in financing activities for the three months ended March 31, 2017 was \$7.1 million, of which \$4.5 million was used to repurchase our common stock under our share repurchase program, \$1.7 million used in taxes paid related to net-share settlements of restricted stock units, payments of principal on our long-term debt of \$1.3 million, partially offset by \$0.4 million received from the proceeds of stock option exercises.

Cash provided by financing activities for the three months ended March 31, 2016 was \$73.2 million, of which \$100.0 million represented proceeds from the issuance of long-term debt which was partially offset by \$23.9 million used to repurchase our common stock under our share repurchase program, \$2.0 million for payments of issuance costs related to our long-term debt, and \$1.0 million used in taxes paid related to net-share settlements of restricted stock units.

## **Contractual Obligations and Commitments**

### ***Commitments***

We generally do not enter into long-term minimum purchase commitments. Our principal long-term commitments consist of obligations under operating leases for office space. There were no material changes to our contractual obligations and commitments during the three months ended March 31, 2017 as compared to our contractual obligations and commitments presented under the heading “Contractual Obligations and Commitments” in Part II, Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” or the heading “Commitments and Contingencies” in Note 12 of the Notes to Consolidated Financial Statements in Part II, Item 8 of our Annual Report on Form 10-K filed with the SEC on February 28, 2017.

### ***Debt***

On February 26, 2016, we entered into the Credit Agreement which provided for the Term Facility and the Revolving Credit Facility. As of March 31, 2017, the total balance outstanding on the Term Facility is \$95.0 million, and the Revolving Credit Facility remains undrawn. Our debt facilities and repayment schedule are described in more detail in Note 11, “Debt,” in Notes to Condensed Consolidated Financial Statements (unaudited) in Part I, Item 1 of this Quarterly Report on Form 10-Q.

## **Issuer Purchases of Equity Securities**

In February 2015, our Board of Directors authorized the repurchase of up to \$75.0 million of our outstanding shares of common stock. In March and May 2016, we increased our share repurchase program by \$25 million and \$50 million, respectively, for a total amount authorized of \$150 million. As part of the share repurchase program, shares may be purchased in open market transactions, including through block purchases, through privately negotiated transactions, or pursuant to any trading plan that may be adopted in accordance with Rule 10b5-1 of the Exchange Act. The timing, manner, price and amount of any repurchases will be determined in our discretion and will depend on factors such as cash generation from operations, other cash requirements, economic and market conditions, stock price and legal and regulatory requirements. The share repurchase program does not have an expiration date and may be suspended, terminated or modified at any time for any reason. The repurchase program does not obligate us to acquire any specific number of shares, and all open market repurchases will be made in accordance with Exchange Act Rule 10b-18, which sets certain restrictions on the method, timing, price and volume of open market stock repurchases. As of March 31, 2017, we had repurchased an aggregate of 8.3 million shares of common stock in the open market for \$90.8 million under the share repurchase program.

## **Off Balance Sheet Arrangements**

At March 31, 2017, we did not have any relationships with unconsolidated entities or financial partnerships, such as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance-sheet arrangements or other contractually narrow or limited purposes.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates. Our market risk exposure is primarily a result of fluctuations in foreign currency exchange rates and interest rates. We do not hold or issue financial instruments for trading purposes.

***Foreign Currency Exchange Risk***

Our subscription agreements are denominated in U.S. dollars and, therefore, our subscription revenue is not currently subject to significant foreign currency risk. Certain of our discovery services operations are denominated in currencies other than the U.S. dollar, primarily the British pound sterling and the Euro, and therefore these operations are exposed to foreign exchange rate fluctuations, particularly in light of the referendum in the United Kingdom in which voters approved an exit from the European Union, commonly referred to as "Brexit," and other recent political developments. Our expenses are incurred primarily in the United States, with a portion of expenses incurred and denominated in the currencies where our international offices are located. Our results of operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the British pound sterling, Japanese yen, and Euro relative to the U.S. dollar, including changes due to Brexit. To date, we have not entered into any foreign currency hedging contracts.

***Interest Rate Sensitivity***

Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio of cash equivalents and short-term investments and our long-term debt.

As of March 31, 2017, we had an outstanding term facility with a five-year maturity with an aggregate carrying amount of \$95.0 million, which bears interest at our option equal to either a base rate plus a margin ranging from 1.25% to 1.75% per annum LIBOR plus a margin ranging from 2.25% to 2.75% per annum, based upon the ratio of the our debt to consolidated adjusted EBITDA ratio. A hypothetical 100 BPS increase or decrease in LIBOR would increase or decrease the interest expense on our term facility by approximately \$0.2 million for the three months ended March 31, 2017.

We had cash, cash equivalents and short-term investments of \$226.6 million as of March 31, 2017. Our cash balances deposited in U.S. banks are non-interest bearing and insured up to the Federal Deposit Insurance Corporation ("FDIC") limits. Cash equivalents consist primarily of commercial paper, institutional money market funds, and municipal bonds denominated primarily in U.S. dollars. Interest rate fluctuations affect the returns on our invested funds.

As of March 31, 2017, our short-term investments of \$68.3 million were primarily invested in municipal and corporate bonds maturing between 90 days and 12 months, U.S. government and agency securities, and commercial paper. As of March 31, 2017, our investments were primarily classified as available-for-sale and, consequently, were recorded at fair value in the condensed consolidated balance sheets with unrealized gains or losses reported as a separate component of stockholders' equity. We review our investments for impairment when events and circumstances indicate that a decline in the fair value of an asset below its carrying value is other-than-temporary. As of March 31, 2017, we had not recorded any impairment charges related to our investments in the condensed consolidated statement of operations.

A hypothetical change in interest rates of 10% during the three months ended March 31, 2017 would not have had a material impact on the fair value of our investments.

**Item 4. Controls and Procedures.**

**Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2017. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of March 31,

2017, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

**Internal Control over Financial Reporting**

***Changes in Internal Control over Financial Reporting***

There were no changes in our internal control over financial reporting during the three months ended March 31, 2017 which were identified in connection with management's evaluation required by Rule 13a-15 and 15d-15 under the Exchange Act that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings.

Refer to Note 12, “Commitments and Contingencies,” in Notes to Condensed Consolidated Financial Statements (unaudited) in Part I, Item 1 of this Quarterly Report on Form 10-Q, which is hereby incorporated by reference.

### Item 1A. Risk Factors.

*Investing in our common stock involves a high degree of risk. You should consider carefully the risks and uncertainties described below before making a decision to buy our common stock. If any of the following risks actually occur, our business, financial condition, results of operations or growth prospects could be harmed. In that case, the trading price of our common stock could decline and you could lose all or part of your investment in our common stock. The risks described below are not the only risks facing us. Risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition, operating results, and growth prospects.*

#### Risks Related to Our Business and Industry

*We may experience significant quarterly fluctuations in our operating results due to a number of factors, which make our future operating results difficult to predict and could cause our operating results to fall below expectations.*

Due to our limited operating history, our evolving business model and the unpredictability of our emerging industry, certain of our operating results have fluctuated significantly in the past and may fluctuate significantly in the future. Many of the factors that cause these fluctuations are outside of our control. The amount we spend to acquire patent assets, the characteristics of the assets acquired and the timing of those acquisitions may result in significant quarterly fluctuations in our capital expenditures and our financial results, and the amount and timing of our membership sales may result in significant fluctuations in our cash flow on a quarterly basis. As a result, comparing our operating results on a period-to-period basis may not be meaningful. You should not rely on our past results as an indication of our future performance.

In addition to the factors described above and elsewhere in this Item 1A, other factors that may affect our operating results include:

- changes in our subscription fee rates or changes in our own pricing and discounting policies or those of our competitors;
- decreases in our clients’ and prospective clients’ costs of litigating patent infringement claims;
- our inability to effectively develop and implement new services that meet client requirements in a timely manner;
- changes in patent law and regulations and other legislation, as well as United States Patent and Trademark Office procedures or court rulings, that reduce the value of our services to our existing and potential clients;
- lower subscription fees from clients whose annual subscription fees decrease due to declining operating income or revenue of such clients or the effects of changes in foreign exchange rates;
- our lengthy and unpredictable membership sales cycle, including delays in potential clients’ decisions whether to subscribe to our patent risk management services;
- the addition or loss of discovery services clients and projects which are difficult to predict and may result in material changes in quarterly revenue and costs;
- changes in the accounting treatment associated with our acquisitions of patent assets, how we amortize those patent assets and how we recognize revenue under subscription agreements;
- our acquisition of patent assets with a shorter estimated useful life that increases our near-term patent asset amortization expense and decreases our earnings;
- non-renewals from existing clients for any reason;
- loss of clients, including through acquisitions or consolidations;
- losses incurred as a result of claims made on insurance policies underwritten or assumed by us;
- our inability to retain key personnel;
- our inability to acquire patent assets that are being asserted or may be asserted against our clients due to lack of availability, unfavorable pricing terms or otherwise;
- increases in operating expenses, including those attributable to additional headcount, the costs of new business initiatives, and our acquisition of Inventus;
- other matters related to our acquisition of Inventus and the expansion of our business into discovery services;
- any significant changes in the competitive dynamics of our market, including new competitors or substantial discounting of services that are viewed by our target market as competitive to ours;

- increases in the prices we need to pay to acquire patent assets;
- gains or losses realized as a result of our sale of patents, including upon the exercise by any of our clients of their limited right to purchase certain of our patent assets for defensive purposes in the event of a patent infringement suit brought against such client by a third party;
- outstanding debt service obligations and repayment thereof; and
- adverse economic conditions in the industries that we serve, particularly as they affect the intellectual property risk management and/or litigation budgets of our existing or potential clients.

If our operating results in a particular quarter do not meet the expectations of securities analysts or investors, our stock price could be substantially affected. In particular, if our operating results fall below expectations, our stock price could decline substantially.

***The market for our patent risk management services is evolving, and if these services are not widely accepted or are accepted more slowly than we expect, our operating results will be adversely affected.***

We have derived substantially all of our revenue from the sale of memberships to our patent risk management services and we expect this will continue for the foreseeable future. As a result, widespread acceptance of these services is critical to our future success. The market for patent risk management services is evolving and it is uncertain whether these services will achieve and sustain high levels of demand and market acceptance. Our success will depend, to a substantial extent, on the willingness of companies of all sizes to purchase and renew memberships as a way to reduce their patent litigation costs. If companies do not perceive the cost-savings benefits of patent risk management services, then wide market adoption of our patent risk management services will not develop, or it may develop more slowly than we expect. Either scenario would adversely affect our operating results in a significant way. Factors that may negatively affect wide market acceptance of these services, as well as our ability to obtain new clients and renew existing clients, include:

- reduced assertions from non-practicing entities ("NPEs") or decreased patent licensing fees owed to NPEs;
- limitations on the ability of NPEs to bring patent claims or limitations on the potential damages recoverable from such claims;
- reduced cost to our clients of defending patent assertion claims;
- uncertainty about our ability to significantly reduce patent litigation costs for a particular company;
- lack of perceived relevance and value in our existing patent asset portfolio by existing or potential clients;
- concerns by existing or potential clients about our future ability to obtain rights to patent assets that are being or may be asserted against them;
- reduced incentives to renew memberships if clients have vested into perpetual licenses in all patent assets that they believe are materially relevant to their businesses;
- lack of sufficient interest by mid- and small-size companies in our patent risk management or insurance offerings;
- reduced incentive for companies to become clients because we do not assert our patent assets in litigation;
- concerns that we might change our current business model and assert our patent assets in litigation;
- budgetary limitations for existing or potential clients; and
- the belief that adequate coverage for the risks and expenses we attempt to reduce is available from alternative products or services.

***Our limited operating history makes it difficult to evaluate our current business and future prospects, and potential clients may have concerns regarding the effectiveness of our business model in the future. If companies do not continue to subscribe to our services, our business and operating results will be adversely affected.***

We acquired our first patent assets in September 2008, sold our first membership in October 2008, and sold our first insurance policy in August 2012. In addition, we acquired Inventus and its litigation discovery services business in January 2016. The litigation discovery services business is a new business for us. Therefore, we have not only a limited operating history, but also a limited track record in executing our business model. Our future success depends on acceptance of our services by companies we target to become clients. Our efforts to sell our products to new and existing clients may not continue to be successful. We evaluate our business model from time to time in order to address the evolving needs of our clients and prospective clients, particularly in an industry that continues to develop and change. Our limited operating history may also make it difficult to evaluate our current business and future prospects. We have encountered and will continue to encounter risks and difficulties frequently experienced by companies in rapidly changing industries. If we do not manage these risks successfully, our business and operating results will be adversely affected.

If the market for our services develops more slowly than we anticipate, or if competitors introduce new solutions that compete with our services, we may be unable to renew our memberships, sell insurance policies or attract new clients at favorable prices based on the same pricing model we have historically used. In the future, it is possible that competitive dynamics in our market may require us to change our pricing model, reduce our subscription fee rates, or consider adding new pricing programs or discounts, which would likely harm our operating results. If we introduce a higher rate card for our subscription business in the future, it may be more difficult for us to attract new clients. In order to attract new clients and retain existing clients, in certain cases we have previously offered, and may in the future offer, discounts or other contractual incentives to clients.

***Our subscription fees from clients may decrease due to factors outside of our control. Any reduction in subscription fees could harm our business and operating results.***

Subscription fees are typically reset annually based on a client's reported revenue and operating income measured as of the end of its last fiscal year. If a client who is not already paying the minimum due under our rate card experiences reduced operating results, its subscription fee for the next year will decline. As a result, our revenue stream may be affected by conditions outside of our control that impact the operating results of our clients.

Our rate cards generally provide that our subscription fee as a percentage of the client's operating income decreases as their operating income goes up. In addition, many of our clients' rate cards are subject to an annual cap. As a result, if one of our clients acquires another client, our future revenue could be reduced as a result of the application of our rate card to the combined entity rather than to each entity separately. Any reduction in subscription fees could harm our business and operating results.

***The success of our business depends on clients renewing their subscription agreements, and we do not have an adequate operating history to predict the rate of membership renewals. Any significant decline in our membership renewals could harm our operating results.***

Our clients have no obligation to renew their subscriptions after the expiration of their initial membership period. We have limited historical data with respect to rates of subscription renewals, so we cannot accurately predict renewal rates. As of March 31, 2017, the weighted-average term of our subscription agreements with our current clients since the inception of those agreements was 2.3 years. As our overall membership base grows, we expect our rate of client renewals to decline compared to our historical rate. Our clients may choose not to renew their memberships or, if they do renew, may choose to do so for shorter terms or seek a reduced subscription fee. Many of our subscription agreements provide for automatic one-year renewal periods. As a result, as more of our clients are in renewal periods, the weighted-average term of our subscription agreements has decreased and may continue to decrease further. If our clients do not renew their subscriptions or renew for shorter terms or if we allow them to renew at reduced subscription fees, our revenue may decline and our business may be adversely affected.

Upon initial subscription, our clients receive a term license for the period of their membership to substantially all of the patent assets in our portfolio at the time of subscription. In addition, clients receive term licenses to substantially all of the patent assets we acquire during the period of their membership. Our subscription agreements also typically include a vesting provision that converts a client's term licenses into perpetual licenses on a delayed, rolling basis as long as the company remains a client. Accordingly, clients who continue to subscribe to our services receive perpetual licenses to an increasing number of our patent assets over time. If we are unable to adequately show clients that we are continuing to obtain additional patent assets that are being or may be asserted against them, clients may choose not to renew their subscriptions once they have vested into a perpetual license to all patent assets they believe are materially relevant to their businesses.

***Our membership sales cycles can be long and unpredictable, and our membership sales efforts require considerable time and expense. As a result, our membership sales are difficult to predict and will vary substantially from quarter to quarter, which may cause our cash flow to fluctuate significantly.***

Because we operate in a relatively new and unproven market, our membership sales efforts involve educating potential clients about the benefit of our services, including potential cost savings to a company. Potential clients typically undergo a lengthy decision-making process that has, in the past, generally resulted in a lengthy and unpredictable sales cycle. Mid- and small-size companies are generally subject to less patent litigation and we expect even lengthier sales cycles for such companies. We spend substantial time, effort and resources in our membership sales efforts without any assurance that our efforts will produce any membership sales. In addition, subscriptions are frequently subject to budget constraints, multiple approvals, and unplanned administrative, processing and other delays. As a result of these factors, our membership sales in any period are difficult to predict and will likely vary substantially between periods, which may cause our cash flow to fluctuate significantly between periods.

***Because we generally recognize revenue from membership subscriptions over the term of the membership, upturns or downturns in membership sales may not be immediately reflected in our operating results. As a result, our future operating results may be difficult to predict.***

We generally recognize subscription fees received from clients ratably over the period of time to which those fees apply. Most of our clients are invoiced annually, and thus their fees are recognized as revenue over the course of 12 months. Consequently, a decline in new or renewed subscriptions in any one quarter will not be fully reflected in that quarter's revenue and will negatively affect our revenue in future quarters. In addition, we may be unable to adjust our cost structure quickly to reflect this reduced revenue. Accordingly, the effect of either significant downturns in membership sales or rapid market acceptance of our services may not be fully reflected in our results of operations in the period in which such events occur. Our membership subscription model also makes it difficult for us to rapidly increase our revenue through additional sales in any period, as subscription fees from new clients must generally be recognized over the applicable membership term.

***If the Inventus security measures are breached, our discovery services may be perceived as not being secure, clients may curtail or stop using our discovery services, and we may incur significant legal and financial exposure.***

We process, store, and transmit large amounts of data, including personal information, for our discovery services clients, and a material security breach would expose us to a risk of loss of this information, litigation, and potential liability. Because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently and often are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures.

***We are dependent on our management team, and the loss of any key member of this team may prevent us from implementing our business plan, which could harm our future growth and operating results.***

Our success depends largely upon the continued services of our executive officers and other key personnel. We do not have employment agreements with any of our executive officers or other key management personnel that require them to remain our employees. Therefore, they could terminate their employment with us at any time without penalty. Our previous chief executive officer resigned his employment with us in February 2017, and we recently announced that our executive vice president was joining our board of directors and would be resigning her executive position later this year. We do not maintain key person life insurance policies on any of our employees. The loss of one or more of our key employees, including the recent loss of previous chief executive officer and our executive vice president, could seriously harm our business.

***Our inability to identify, attract, train, integrate and retain highly qualified employees would harm our business.***

Our future success depends on our ability to identify, attract, train, integrate and retain highly qualified technical, sales and marketing, managerial and administrative personnel. In particular, our ability to increase our revenue is dependent on our ability to hire personnel who can identify and acquire valuable patent assets and attract new clients. Competition for highly skilled sales, business development and technical individuals is intense, and we continue to face difficulty identifying and hiring qualified personnel in some areas of our business. We may not be able to hire and retain such personnel at compensation levels consistent with our existing compensation and salary structure. Many of the companies with which we compete for hiring experienced employees have greater resources than we have. If we fail to identify, attract, train, integrate and retain highly qualified and motivated personnel, our reputation could suffer, and our business, financial condition and results of operations could be adversely affected.

***We rely on various actuarial models in pricing our insurance product and estimating the frequency and severity of related loss events, but actual results could differ materially from the model outputs. Incurring losses that exceed our predictions could adversely affect our financial condition and results of operations.***

We employ various predictive modeling, stochastic modeling and/or actuarial techniques to analyze and estimate losses and the risks associated with insurance policies that we underwrite or reinsure. We use the modeled outputs and related analyses to assist us in making underwriting, pricing and reinsurance decisions. The modeled outputs and related analyses are subject to numerous assumptions, uncertainties and the inherent limitations of any statistical analysis. Consequently, modeled results may differ materially from our actual experience. If, based upon these models or otherwise, we under price our products or underestimate the frequency and/or severity of loss events, our results of operations or financial condition may be adversely affected, which could have a material adverse effect on our results of operations. If, based upon these models or otherwise, we over price our products or overestimate the risks we are exposed to, new business growth and retention of our existing business may be adversely affected.

***If we are unable to enhance our current services or to develop or acquire new services to provide additional value to our clients and potential clients, we may not be able to maintain our growth, and our business may be harmed.***

In order to attract new clients and retain existing clients, we need to enhance and improve our existing service offering and introduce new services that meet the needs of our clients. We have in the past, and may in the future, seek to acquire or invest in businesses, products or technologies that we believe could complement or expand our services, enhance our technical capabilities or otherwise offer growth opportunities. For example, in June 2014 we acquired DCML Services Corporation, a provider of data, intelligence and consulting on NPEs.

The development and implementation of new services, particularly our legal discovery services, will continue to require substantial time and resources, as well as require us to operate businesses that would be new to our organization. These or any other new services may not be introduced in a timely manner or at all. If we do introduce these or any other services, we may be unable to implement such services in a cost-effective manner, achieve wide market acceptance, meet client expectations or generate revenue sufficient to recoup the cost of developing such services. Any new services we introduce may expose us to additional laws, regulations and risks. If we are unable to develop these or other services successfully and enhance our existing services to meet client requirements or expectations, we may not be able to attract or retain clients, and our business may be harmed.

***We receive a significant amount of our revenues from a limited number of clients, and if we are not able to obtain membership renewals or continued engagements from these clients, our revenue may decrease substantially.***

We receive a significant amount of our revenue from a limited number of clients. For example, during the three months ended March 31, 2017, our 10 highest revenue-generating clients accounted for approximately 30% of our total revenue. We expect that a significant portion of our revenue will continue to come from a relatively small number of clients for the foreseeable future. If any of these clients chooses not to remain a client, or if our fees from one of these clients decline, our revenue may correspondingly decrease and our operating results may be adversely affected.

***If we are unable to successfully expand our membership base to include small and mid-size companies, we may not be able to maintain our growth and our business and results of operations may be harmed.***

Many of our current clients are very large companies. The number of companies of that size is limited and, in order for us to continue our growth, we need to expand our membership base to include small and mid-size companies. There is no guarantee that we will be successful in those efforts. Small and mid-size companies often have more limited budgets available for services of the type we offer compared to large companies. Furthermore, small and mid-size companies are generally not subject to as much patent litigation as large companies and, therefore, may not perceive that the benefits of our services justify their cost. They may also have concerns that we will focus our patent acquisition efforts on patent assets that are of more benefit to our larger clients who pay us higher subscription fees. If we are unable to successfully expand our membership base to include an increased number of companies, our growth may slow, and our business may be harmed.

***We are investing management time and resources into developing products designed to provide insurance against patent infringement claims. We have limited prior experience in designing or providing insurance products. If we are not successful in selling a significant amount of these insurance products, we will not realize the anticipated benefit of these investments, which could have an adverse effect on our growth prospects, and our business may be harmed.***

We are investing management time and financial resources in the development of products designed to provide insurance against some of the costs resulting from patent claims. We are providing capital to develop and operate this business. We have limited prior experience in designing insurance products, operating an insurance business, attracting policyholders or establishing the pricing or terms of insurance policies and selling insurance policies in combination with membership subscriptions. We cannot assure you that our patent insurance products will appeal to a sufficient number of our existing clients or attract enough new clients to build a sustainable insurance business. If we are unsuccessful in managing this business, we may not realize the anticipated benefits of our investments of capital and management attention, which could have an adverse effect on our financial performance and growth prospects and our business may be harmed.

***We recently acquired Inventus, and may acquire or invest in other companies or technologies, which could divert our management's attention, result in additional dilution to our stockholders, and otherwise disrupt our operations and harm our operating results. We may also be unable to realize the expected benefits and synergies of any acquisitions.***

We have in the past and may in the future seek to acquire or invest in businesses, products or technologies that we believe could complement or expand our services, enhance our technical capabilities or otherwise offer growth opportunities. We may not be able to integrate the acquired personnel, operations, and technologies successfully or effectively manage the combined business. The pursuit of potential acquisitions may divert the attention of management and cause us to incur various expenses in identifying, investigating and pursuing suitable acquisitions, whether or not they are consummated.

In addition, we may not achieve the anticipated benefits from the Inventus or another acquisition due to a number of factors, including:

- difficulties in integrating operations, technologies, services and personnel;
- the need to integrate the operations, systems (including accounting, management, information, human resources and other administrative systems), technologies, products, and personnel of each acquired company, which is an inherently risky and potentially lengthy and costly process;
- the need to implement or improve controls, procedures, and policies appropriate for a public company at companies that prior to our acquisition may have lacked such controls, procedures, and policies or whose controls, procedures, and policies did not meet applicable legal and other standards;
- our dependence on the accounting, financial reporting, operating metrics and similar systems, controls and processes of an acquired business, and the risk that errors or irregularities in those systems, controls, and processes will lead to errors in our consolidated financial statements or make it more difficult to manage the acquired business;
- the potential loss of key customers, vendors, and other business partners of the companies we acquire following the announcement of our transaction plans;
- the inefficiencies and lack of control that may result if such integration is delayed or not implemented, and unforeseen difficulties and expenditures that may arise as a result;
- derivative lawsuits resulting from the acquisition;
- risks associated with our expansion into new international markets;
- unanticipated costs or liabilities associated with the acquisition;
- incurrence of acquisition-related costs;
- diversion of management's attention from other business concerns;
- potential loss of key employees;
- additional legal, financial and accounting challenges and complexities in areas such as tax planning and cash management;
- use of resources that are needed in other parts of our business; and
- use of substantial portions of our available cash to consummate the acquisition.

Future acquisitions could also result in dilutive issuances of equity securities or the incurrence of debt, which could adversely affect our operating results. In addition, if an acquired business fails to meet our expectations, our operating results, business and financial condition may suffer.

***Our discovery services engagement agreements, including those related to our largest clients, can be terminated by our clients with little or no notice and without penalty, which may cause our operating results to be unpredictable.***

Our discovery services clients typically retain us on an engagement-by-engagement basis, rather than under fixed-term contracts; the volume of work performed for any particular client is likely to vary from month to month and year to year, and a major client in one fiscal period may not require or may decide not to use our services in any subsequent fiscal period. Almost all of our discovery services engagement agreements can be terminated by our clients with little or no notice and without penalty. For example, in engagements related to litigation, if the litigation were to be settled, our engagement for those services would no longer be necessary and, therefore, would be terminated. When discovery services engagements are terminated or reduced, we lose the associated future revenues, and we may not be able to recover associated costs or redeploy the affected employees in a timely manner to minimize the negative impact. In addition, our discovery services clients' ability to terminate engagements with little or no notice and without penalty makes it difficult to predict our operating results for the discovery services segment in any particular fiscal period.

***If we are unable either to identify patent assets that are being asserted or that could be asserted against existing and potential clients or to obtain such assets at prices that are economically supportable within our business model, we may not be able to attract or retain sufficient clients and our operating results would be harmed.***

Our ability to attract new clients and renew the subscription agreements of existing clients depends on our ability to identify and acquire patent assets that are being asserted or that could be asserted against our existing or potential clients. There is no guarantee that we will be able to adequately identify those types of patent assets on an ongoing basis and, even if identified, that we will be able to acquire rights to those patent assets on terms that are favorable to us, or at all. As new technological advances occur, some or all of the patent assets we have acquired may become less valuable or obsolete before we have had the opportunity to obtain significant value from those assets.

Our approach to acquiring patent assets generally involves acquiring ownership or a license at a fixed price. Other companies, such as NPEs, often offer contingent payments to sellers of patents that may provide the seller the opportunity to receive greater amounts in the future for the sale of its patents as compared to the fixed price we generally pay. As a result, we may not be able to compete effectively for the acquisition of certain patent assets.

If clients do not perceive that the patent assets we acquire are relevant to their businesses, we will have difficulty attracting new clients and retaining existing clients, and our operating results will be harmed. Similarly, if clients are not satisfied with the amount of capital we deploy to acquire patent assets, they may choose not to renew their subscriptions. These risks are greater if we elect to invest a significant amount of our capital in only a few acquisitions of patent assets.

***We have very limited flexibility to change the pricing of our services for existing clients and may not be able to respond effectively to changes in our market. This limited flexibility could have an adverse effect on our operating results.***

Under many of our existing subscription agreements, our annual subscription fee is based on published rate cards applicable to all of our clients that commence their membership while that rate card is in effect. Clients under such agreements are able to renew their memberships perpetually under the rate card in effect at the time that they became members with periodic adjustments by us only based on changes in the Consumer Price Index. This means that any increases to our rate card generally apply only to clients that join after such increase. Accordingly, we have limited ability to change the economics of our business model with respect to existing clients in response to changes in the market in which we operate. This limited flexibility could have an adverse effect on our operating results. For example, if we increase our operating expenses as a result of changes in our market, we would have very limited ability to increase the subscription fees we charge to our existing clients to offset the increased operating expenses, and our operating results could be adversely affected.

***Releases of new software products or upgrades to our existing software products or licensed third-party software may have undetected errors, or may not operate as intended or achieve our client's desired objectives, which could cause litigation claims against us, damage to our reputation, or loss of business.***

Certain of our discovery services utilize software developed by us or third parties for the needs of our clients. Complex software products, such as those we utilize, can contain undetected errors when first introduced or as new versions are released, or may fail to operate as intended or achieve the client's desired objectives. Any introduction of new software products or upgrade to existing software products has a risk of undetected errors. These undetected errors may be discovered only after a product has been installed and used either in our internal processing or by our clients. Likewise, the software products we acquire in business acquisitions have a risk of undetected errors. Any undetected errors, difficulties in installing and maintaining our software products or upgrade releases, or the failure to achieve the client's desired objectives, may result in a delay or loss of revenue, diversion of development resources, damage to our reputation, the loss of that client, loss of future business, increased service costs, potential litigation claims against us, or impaired market acceptance of our products.

***We may not be able to compete effectively against others in our patent risk management or legal discovery services businesses. Any failure to compete effectively could harm our business and results of operations.***

In our efforts to attract new clients and retain existing clients, we compete primarily against established patent risk management strategies employed by those companies. Companies can choose from a variety of other strategies to attempt to manage their patent risk, including internal buying or licensing programs, cross-licensing arrangements, patent-buying consortiums or other patent-buying pools and engaging legal counsel to defend against patent assertions. As a result, we spend considerable resources educating our existing and prospective clients on the potential benefits of our services and the value and cost savings they provide.

In addition to competing for new clients, we also compete to acquire patent assets. Our primary competitors in the market for patent assets are varied and include other entities that seek to accumulate patent assets, including NPEs such as Acacia Research and PanOptis. Many of our current or potential competitors have longer operating histories and significantly greater financial resources than we have. In addition, many NPEs that compete with us to acquire patent assets have complicated corporate structures that include a large number of subsidiaries, so it is difficult for us to know who the ultimate parent entity is and how much capital the related entities have available to acquire patent assets. We also face competition for patent assets from operating companies, including operating companies that are current or prospective clients. Many of these operating companies have significantly greater financial resources than we have and can acquire patent assets at prices that we may not be able to pay.

In addition, the discovery services market is highly fragmented, extremely competitive, and continually changing as technology and the legal and regulatory environments evolve around the world. Our competitors include larger businesses that offer a distinct discovery service offering such as DTI Global, KrollDiscovery, Consilio, and FTI Consulting. We also compete with smaller regional discovery services businesses as well as discovery services practices inside large and mid-sized law firms

and professional services firms. Many of our competitors in this market have a greater national and international presence, as well as have a significantly greater number of personnel, financial, technical, and marketing resources. In addition, these competitors may generate greater revenues and have greater name recognition than we do.

We expect to face more direct competition in the future in both our patent risk management business and litigation discovery services business from other established and emerging companies. In addition, as a relatively new company in the patent risk management market and litigation discovery services market, we have limited insight into trends that may develop and affect our businesses. As a result, we may make errors in predicting and reacting to relevant business trends, making us unable to compete effectively against others.

Our current or potential competitors in both our patent risk management business and litigation discovery services businesses vary widely in size and in the scope and breadth of the products and services they offer. Many of our competitors have substantially greater financial resources and a larger client base and sales and marketing teams. The competition we face now and in the future could result in increased pricing pressure, reduced margins, increased sales and marketing expenses and a failure to increase, or the loss of, market share. We may not be able to maintain or improve our competitive position against our current or future competitors, and our failure to do so could seriously harm our business.

***Certain of our acquisitions of patent assets are time consuming, complex and costly, which could adversely affect our operating results.***

Certain of our acquisitions of patent assets are time consuming, complex and costly to consummate. We utilize many different transaction structures in our acquisitions and the terms of the acquisition agreements tend to be very heavily negotiated. As a result, we may incur significant operating expenses during the negotiations even when the acquisition is ultimately not consummated. Even if we successfully acquire particular patent assets, there is no guarantee that we will generate sufficient revenue related to those patent assets to offset the acquisition costs. While we conduct confirmatory due diligence on the patent assets we are considering for acquisition, we may acquire patent assets from a seller who does not have proper title to those assets. In those cases, we may be required to spend significant resources to defend our interests in the patent assets and, if we are not successful, our acquisition may be invalid, in which case we could lose part or all of our investment in the assets.

We occasionally identify patent assets that cost more than we are prepared to spend of our own capital resources or that may be relevant only to a very small number of clients. In these circumstances, we may structure and coordinate a transaction in which certain of our clients contribute funds that are in addition to their subscription fees in order to acquire those patent assets. These syndicated acquisitions are complex and can be large and highly visible. We may incur significant costs to organize and negotiate a syndicated acquisition that does not ultimately result in an acquisition of any patent assets. These higher costs could adversely affect our operating results. Our roles in structuring the acquisition and managing the acquisition entity, if one is used, may expose us to financial and reputational risks.

***New legislation, regulations or court rulings related to enforcing patents could reduce the value of our services to clients or potential clients and harm our business and operating results.***

If Congress, the U.S. Patent and Trademark Office or courts implement additional legislation, regulations or rulings that impact the patent enforcement process or the rights of patent holders, these changes could negatively affect the operating results and business model for NPEs. This, in turn, could reduce the value of our services to our current and potential clients. For example, limitations on the ability to bring patent enforcement claims or the venue for those claims, limitations on potential liability for patent infringement, lower evidentiary standards and new procedures for invalidating patents, increased difficulty for parties making patent assertions to obtain injunctions, reductions in the cost to resolve patent disputes and other similar developments could negatively affect an NPE's ability to assert its patent rights successfully, decrease the revenue associated with asserting or licensing an NPE's patent rights and increase the cost or risk of bringing patent enforcement actions. As a result, assertions and the threat of assertions by NPEs may decrease. If this occurs, companies may seek to resolve patent claims on an individual basis and be less willing to subscribe to our services or renew their memberships. Furthermore, even if companies are interested in subscribing to our services or maintaining their memberships, companies may be unwilling to pay the subscription fees that we propose. Any of these events could result in a material adverse effect on our business and operating results.

In addition, future laws and regulations, or judicial interpretations thereof, could adversely affect our discovery services clients and thus indirectly affect our business. For example, changes to the Federal Rules of Civil Procedure regarding discovery of "electronically stored information" could result in a decreased need for discovery services. Any of these events could result in a material adverse effect on our business and operating results.

***If we are not perceived as a trusted defensive patent aggregator, our ability to gain wide market acceptance will be harmed, and our operating results could be adversely affected.***

Our reputation, which depends on earning and maintaining the trust of existing and potential clients, is critical to our business. Our reputation is vulnerable to many threats that can be difficult or impossible to control and costly or impossible to remediate. For our business to be successful, we must continue to educate potential clients about our role as a trusted intermediary in the patent market. If our reputation is harmed, we may have more difficulty attracting new clients and retaining existing clients, and our operating results could be adversely affected.

***The unavailability of third-party technology could adversely impact our revenue and results of operations.***

We license certain discovery-related software from third parties and incorporate such software into our discovery services. Most of our third-party software license contracts expire within one year and may be renewed only by mutual consent. There is no assurance that we will be able to renew these contracts as they expire or that such renewals will be on the same or substantially similar terms or on conditions that are commercially reasonable to us. If we fail to renew these contracts as they expire, our discovery services offerings may be reduced. In addition, our third-party software licenses are non-exclusive, and therefore, our competitors may obtain the right to license certain of the technology covered by these agreements to compete directly with us. In certain situations, our third party software licensors are themselves also our competitors in the discovery services market.

If certain of our third-party licensors were to change product offerings, cease actively supporting the technologies, fail to update and enhance the technologies to keep pace with changing industry standards, encounter technical difficulties in the continuing development of these technologies, significantly increase prices, terminate our licenses, suffer significant capacity or supply chain constraints or suffer significant disruptions, we would need to seek alternative suppliers and incur additional internal or external development costs to ensure continued performance of our discovery services. Such alternatives may not be available on attractive terms, or may not be as widely accepted or as effective as the current licenses provided by our existing suppliers. If the cost of licensing or maintaining the third party intellectual property significantly increases, our operating earnings could significantly decrease. In addition, interruption in functionality of our services and products as a result of changes in or with third party licensors could adversely affect our commitments to clients, future sales, and negatively affect our revenue and operating earnings.

***Interruptions or delays in service at the data centers we utilize for discovery services could impair the delivery of our service and harm our business.***

We provide services through computer hardware that is located in co-location data centers operated by unrelated third parties. Although we do own that computer hardware, we do not control the operation of these colocation facilities, which increases our vulnerability to problems with the services they provide. The data centers are subject to damage or interruption from earthquakes, floods, fires, power loss, terrorist attacks, telecommunications failures and similar events. These facilities are also subject to break-ins, sabotage, intentional acts of vandalism and similar misconduct. The occurrence of any of these events or other unanticipated problems at a facility could result in interruptions in certain of our services, although we have established backup recovery data centers to try to minimize this risk. In addition, the failure by our vendor to provide our required data communications capacity could result in poor service or interruptions in our service. Any damage to, or failure of, our systems or services could reduce our revenue, cause us to issue credits or pay penalties, cause clients to terminate their agreements with us and adversely affect our ability to secure business in the future. Our business will be harmed if our clients and potential clients believe our services are unreliable.

***Our business model requires estimates and judgments by our management. Our estimates and judgments are subject to changes that could adversely affect our operating results.***

Our patent risk management business model is relatively new and therefore our accounting and tax treatment has limited precedent. The determination of patent asset amortization expense for financial and income tax reporting requires estimates and judgments on the part of management. Some of our patent asset acquisitions are complex, requiring additional estimates and judgments on the part of our management. From time to time, we evaluate our estimates and judgments; however, such estimates and judgments are, by their nature, subject to risks, uncertainties and assumptions, and factors may arise that lead us to change our estimates or judgments. If this or any other changes occur, our operating results may be adversely affected. Furthermore, if the accounting or tax treatment is challenged, we may be required to spend considerable time and expense defending our position and we may be unable to successfully defend our accounting or tax treatment, any of which could adversely affect our business and operating results.

***Following the launch of insurance products for patent infringement claims, we now face the risks associated with operating an insurance business. If we fail to manage these risks, our results of operations and financial condition may be adversely affected.***

In August 2012, we began to offer insurance products for patent claims, and therefore face new risks associated with the operation of an insurance business. We have no prior experience in operating an insurance business, which includes assuming underwriting and reinsurance risk and setting premiums. There are many estimates and forecasts involved in predicting underwriting and reinsurance risk and setting premiums, many of which are subject to substantial uncertainty and which could cause our expenses and earnings to vary significantly from quarter to quarter. If we do not estimate our underwriting and reinsurance risks and set our premiums successfully, we may incur larger losses on our policies than we expect, which could have an adverse effect on our results of operations and financial condition. Under accounting principles generally accepted in the United States of America, while premiums earned from our insurance policies are recognized ratably, losses are recognized as incurred. This will increase the variability of our operating results until such time as our insurance business operates at scale. Furthermore, the insurance market is highly regulated, so operation of an insurance business will expose us to additional laws and regulations. Compliance with such laws and regulations may be costly, which could affect our results of operations.

***We may become involved in patent or other litigation proceedings related to our clients. Our involvement could cause us to expend significant resources. It could also require us to disclose information related to our clients, which could cause such clients not to renew their subscriptions with us.***

The patent market is heavily impacted by litigation. As a result, we may be required, by subpoena or otherwise, to participate in patent or other litigation proceedings related to our clients. Our participation in any such proceedings could require us to expend significant resources and could also be perceived as adverse to the interests of our clients or potential clients if we are required to disclose any information about our clients that we have gathered in the course of their memberships. These additional expenditures and potential disclosures could make it more difficult for us to attract new clients and retain existing clients, and our results of operations could be harmed. We may incur significant costs in defending claims made against us and the result may not be favorable. An unfavorable outcome of any claim could result in proliferation of similar claims against us. The expense and disclosure associated with our involvement in litigation could have an adverse effect on our business, prospects, financial condition, operating results and cash flows.

***Interpretations of current laws and the passage of future laws could harm our business and operating results.***

Because of our presence in an emerging industry, the application to us of existing United States and foreign laws is unclear. Many laws do not contemplate or address the specific issues associated with our patent risk management services or other products and services we may provide in the future. It is possible that courts or other governmental authorities will interpret existing laws regulating risk management and insurance, competition and antitrust practices, taxation, the practice of law and patent usage and transfers in a manner that is inconsistent with our business practices. Our business, prospects, financial condition and results of operations may be harmed if our operations are found to be in violation of any existing laws or any other governmental regulations that may apply to us. Additionally, existing laws and regulations may restrict our ability to deliver services to our clients, limit our ability to grow and cause us to incur significant expenses in order to comply with such laws and regulations. Even if our business practices are ultimately not affected, we may incur significant cost to defend our actions, incur negative publicity and suffer substantial diversion of management time and effort. This could have a material adverse effect on our business, prospects, financial condition and results of operations.

Additionally, we face risks from laws that could be passed or changed in the future, including in the United Kingdom as a result of Brexit or in the United States as a result of the recent Presidential election. Since a significant portion of the regulatory framework in the United Kingdom is derived from EU directives and regulations, Brexit could materially affect the regulatory regime in the United Kingdom. Changes in laws and regulations regarding data protection, privacy, network security, or encryption may affect our discovery services. It is impossible to determine the extent of the impact of any new laws, regulations or initiatives that may be proposed, or whether any of the proposals will become law. Compliance with any new or existing laws or regulations could be difficult and expensive, affect the manner in which we conduct our business and negatively impact our business, prospects, financial condition and results of operations.

***Any failure to maintain or protect our patent assets or other intellectual property rights could impair our ability to attract or retain clients and maintain our brand and could harm our business and operating results.***

Our business is dependent on our ability to acquire patent assets that are valuable to our existing and potential clients. Following the acquisition of patent assets, we expend significant time and resources to maintain the effectiveness of those assets by paying maintenance fees and making filings with the United States Patent and Trademark Office. In some cases, the patent assets we acquire include patent applications which require us to invest resources to prosecute the applications with the United States

Patent and Trademark Office. If we fail to maintain or prosecute our patent assets properly, the value of those assets to our clients would be reduced or eliminated, and our business would be harmed.

***If we fail to develop widespread brand awareness cost-effectively, we may not attract new clients and our business and operating results may suffer.***

We believe that developing and maintaining widespread awareness of our brand in a cost-effective manner is critical to achieving widespread acceptance of our services and is an important element in attracting new clients. Furthermore, we believe that the importance of brand recognition will increase as competition in our market develops. Brand promotion activities may not generate client awareness or yield increased revenue, and even if they do, any increased revenue may not offset the expenses we incurred in building our brand. If we fail to promote and maintain our brand successfully, or if we incur substantial expenses in an unsuccessful attempt to promote and maintain our brand, we may fail to attract or retain clients to the extent necessary to realize a sufficient return on our brand-building efforts.

***If we fail to maintain proper and effective internal controls, our ability to produce accurate financial statements could be impaired, which could adversely affect our operating results, our ability to operate our business and investors' views of us.***

Ensuring that we have internal financial and accounting controls and procedures adequate to produce accurate financial statements on a timely basis is a costly and time-consuming effort that needs to be re-evaluated frequently. We have in the past discovered, and may in the future discover, areas of our internal financial and accounting controls and procedures that need improvement. The Sarbanes-Oxley Act of 2002 requires, among other things, that we maintain effective internal control over financial reporting and disclosure controls and procedures. In particular, we must perform system and process evaluation and testing of our internal control over financial reporting to allow management and our independent registered public accounting firm to report on the effectiveness of our internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act of 2002. Our compliance with Section 404 requires that we incur substantial accounting expense and expend significant management time on compliance-related issues. While neither we nor our independent registered public accounting firm have identified deficiencies in our internal control over financial reporting that are deemed to be material weaknesses, there can be no assurance that material weaknesses will not subsequently be identified. If we are unable to effectively remediate control deficiencies which are identified or are otherwise unable to maintain adequate internal controls over our financial reporting in the future, we may not be able to prepare reliable financial statements and comply with our reporting obligations on a timely basis, which could materially adversely affect our business and subject us to legal and regulatory action.

***Global economic conditions may adversely affect demand for our services or fees payable under our subscription agreements, which could adversely affect our financial condition and operating results.***

Our operations and performance depend significantly on worldwide economic conditions, and the United States and world economies have recently and may continue to experience weak economic conditions. In particular, the economics of countries in Europe have been experiencing weakness associated with high sovereign debt levels, weakness in the banking sector, and uncertainty over the future of the Euro zone, including instability surrounding Brexit. Uncertainty about global economic conditions poses a risk as businesses may postpone spending in response to tighter credit, negative financial news and declines in income or asset values. This response could have a material negative effect on the demand for our services. Furthermore, if our clients experience reduced operating income or revenues as a result of economic conditions or otherwise, it would reduce their subscription fees because those fees are generally reset annually based on the clients' operating income or revenue. If the subscription fees payable under our subscription agreements are reduced substantially, it would have an adverse effect on our business and results of operations.

***The requirements of being a public company may strain our resources, divert management's attention and affect our ability to attract and retain qualified board members.***

As a public company, we are subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act, the Dodd-Frank Act, the listing requirements of the NASDAQ Stock Market and other applicable securities rules and regulations. Compliance with these rules and regulations has increased, and will likely continue to increase, our legal and financial compliance costs, make some activities more difficult, time-consuming or costly, and place significant strain on our personnel, systems and resources. In addition, changing laws, regulations and standards relating to corporate governance and public disclosure are creating uncertainty for public companies, increasing legal and financial compliance costs and making some activities more time consuming. These laws, regulations and standards are subject to varying interpretations, in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time. This could result in continuing uncertainty regarding compliance matters, higher administrative expenses and a diversion of management's time and attention. Further, if our compliance efforts differ from the activities intended by regulatory or governing bodies due to ambiguities related to practice, regulatory authorities may initiate legal proceedings against us and our business may be harmed. Being a public company that is subject to these rules and regulations also makes it more expensive for us to obtain and retain director and officer liability

insurance, and we may in the future be required to accept reduced coverage or incur substantially higher costs to obtain or retain adequate coverage. These factors could also make it more difficult for us to attract and retain qualified members of our Board of Directors and qualified executive officers.

***We might require additional capital to support our business growth and future patent asset acquisitions, and this capital might not be available on acceptable terms, or at all. If we are unable to obtain adequate financing or financing on terms satisfactory to us when we require it, our ability to continue to support our business growth and to respond to business challenges could be significantly limited.***

We intend to continue to make investments to support our business growth and may require additional funds to respond to business challenges, including the need to acquire patent assets, develop new services or enhance our existing service offering, enhance our operating infrastructure and acquire complementary businesses and technologies. Accordingly, we may need to engage in equity or debt financings or enter into credit agreements to secure additional funds. If we raise additional funds through further issuances of equity or convertible debt securities, our existing stockholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of our common stock. Any debt financing secured by us in the future could involve restrictive covenants relating to our capital-raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. In addition, we may not be able to obtain additional financing on terms favorable to us, or at all. If we are unable to obtain adequate financing or financing on terms satisfactory to us when we require it, our ability to continue to support our business growth and to respond to business challenges could be significantly limited, which could have an adverse effect on our business and financial condition.

***We have taken on significant debt, which will decrease our business flexibility and increase our interest expense.***

On February 26, 2016, we entered into the Credit Agreement (defined below) which provided for the Term Facility and the Revolving Credit Facility. As of March 31, 2017, the total balance outstanding on the Term Facility was \$95.0 million, and the Revolving Credit Facility remains undrawn.

This debt, together with certain covenants imposed on us in connection with incurring this debt, among other things, limits how we conduct our business, reduces our flexibility to respond to changing business and economic conditions and increases our interest expense. Our ability to pay interest and repay the principal for our indebtedness is dependent upon our ability to manage our business operations, generate sufficient cash flows to service such debt and the other factors discussed in this section. There can be no assurance that we will be able to manage any of these risks successfully. We may also need to refinance a portion of our outstanding debt as it matures. There is a risk that we may not be able to refinance existing debt or that the terms of any refinancing may not be as favorable as the terms of our existing debt. Furthermore, if prevailing interest rates or other factors at the time of refinancing result in higher interest rates upon refinancing, then the interest expense relating to that refinanced indebtedness would increase. In addition, the covenants in our debt limit our ability to, among other things, obtain additional financing, make acquisitions or other investments, repurchase our stock or pay dividends, or dispose of patent assets. These limitations could adversely affect our financial condition and results of operations.

***Our results of operations could vary as a result of the methods, estimates and judgments we use in applying our accounting policies.***

The methods, estimates and judgments we use in applying our accounting policies have a significant impact on our results of operations, including the reported amounts of assets, liabilities, revenue and expenses and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to revenue recognition, patent assets, other investments, income taxes, litigation and other intangibles, and other contingencies. Such methods, estimates and judgments are, by their nature, subject to substantial risks, uncertainties and assumptions, and factors may arise over time that lead us to change our methods, estimates and judgments. In addition, actual results may differ from these estimates under different assumptions or conditions. Changes in those methods, estimates and judgments could significantly affect our results of operations.

***We may not be able to continue offering an “A” rated insurance product.***

In May 2014, we began offering an “A” rated insurance product. If we are unable to maintain our relationship with one or more “A” rated insurance companies, we may be unable to continue offering an “A” rated insurance product, which could have an adverse effect on new insurance business growth and retention of our existing insurance business.

***Reinsurance coverage may not be available to us in the future at commercially reasonable rates or at all.***

As of January 1, 2015, we had secured quota share reinsurance from third party reinsurers for 42% of the risk underwritten through our risk retention group and 40% of the risk underwritten for our insurance company business partner. The availability and cost of reinsurance that we purchase are subject to prevailing market conditions that are beyond our control. No assurances can be made that reinsurance will remain continuously available to us in amounts that we consider sufficient and at rates that we consider

acceptable, which would cause us to increase the amount of risk we retain, reduce the amount of business we underwrite or look for alternatives to reinsurance. This, in turn, could have a material adverse effect on our financial condition or results of operations.

***Our operations are subject to risks of natural disasters, acts of war, terrorism or widespread illness at our domestic and international locations, any one of which could result in a business stoppage and negatively affect our operating results.***

Our business operations depend on our ability to maintain and protect our facility, computer systems and personnel, which are primarily located in the San Francisco Bay Area. The San Francisco Bay Area is in close proximity to known earthquake fault zones. Our facility and transportation for our employees are susceptible to damage from earthquakes and other natural disasters such as fires, floods and similar events. Should earthquakes or other catastrophes such as fires, floods, power outages, communication failures or similar events disable our facilities, we do not have readily available alternative facilities from which we could conduct our business, which stoppage could have a negative effect on our operating results. Acts of terrorism, widespread illness and war could also have a negative effect at our international and domestic facilities and on our operating results.

#### **Risks Related to Ownership of Our Common Stock**

***The trading price of our common stock has been volatile and is likely to be volatile in the future, and you might not be able to sell your shares at or above the price at which you purchased them.***

Since our initial public offering in May 2011, our stock price has traded as high as \$31.41 per share and as low as \$8.55 per share. Further, our common stock has a limited trading history and an active trading market for our common stock may not be sustained in the future. The market price of our common stock could be subject to wide fluctuations in response to various factors, some of which are beyond our control. These factors include those discussed in this “Risk Factors” section of this Current Report on Form 10-Q and others such as:

- variations in our financial condition and operating results;
- the financial projections we may provide to the public, any changes in these projections or our failure to meet these projections;
- changes in the estimates of our operating results or changes in recommendations by any securities analysts that elect to follow our common stock;
- addition or loss of significant clients;
- adoption or modification of laws, regulations, policies, procedures or programs applicable to our business, including those related to the enforcement of patent claims;
- announcements of technological innovations, new products and services, acquisitions, strategic alliances or significant agreements by us or by our competitors;
- recruitment or departure of members of our Board of Directors, management team or other key personnel;
- market conditions in our industry;
- the impact of macroeconomic, market, and political factors and trends, including in light of Brexit, the outcome of the United States Presidential election, and other recent political developments;
- price and volume fluctuations in the overall stock market or resulting from inconsistent trading volume levels of our shares;
- lawsuits threatened or filed against us;
- any change in our stock repurchase program;
- sales of our common stock by us or our stockholders;
- outstanding debt service obligations and repayment thereof; and
- the opening or closing of our employee trading window.

In recent years, the stock market has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the changes in the operating performance of the companies whose stock is experiencing those price and volume fluctuations. Broad market and industry factors may seriously affect the market price of our common stock, regardless of our actual operating performance.

***Substantial future sales of shares by existing stockholders, or the perception that such sales may occur, could cause our stock price to decline, even if our business is doing well.***

If our existing stockholders, particularly our directors and executive officers, sell substantial amounts of our common stock in the public market, or are perceived by the public market as intending to sell substantial amounts of our common stock, the trading price of our common stock could decline.

In addition, shares that are subject to outstanding options or that may be granted in the future under our equity plans will be eligible for sale in the public market to the extent permitted by the provisions of various vesting agreements and Rules 144 and 701 under the Securities Act.

If any of these additional shares described are sold, or if it is perceived that they will be sold, in the public market, the trading price of our common stock could decline.

***As a public company, our stock price has been volatile, and securities class action litigation has often been instituted against companies following periods of volatility of their stock price. Any such litigation, if instituted against us, could result in substantial costs and a diversion of our management's attention and resources.***

In the past, following periods of volatility in the overall market and the market price of particular companies' securities, securities class action litigation has been instituted against these companies. Our stock has been volatile and may continue to be volatile. If instituted against us, securities litigation could result in substantial costs and a diversion of our management's attention and resources, which could adversely affect our operating results, financial condition and stock price.

***Anti-takeover provisions in our charter documents and Delaware law could discourage, delay or prevent a change in control of our company and may affect the trading price of our common stock.***

We are a Delaware corporation and the anti-takeover provisions of the Delaware General Corporation Law may discourage, delay or prevent a change in control by prohibiting us from engaging in a business combination with an interested stockholder for a period of three years after the person becomes an interested stockholder, even if a change in control would be beneficial to our existing stockholders. In addition, our amended and restated certificate of incorporation and amended and restated bylaws may discourage, delay or prevent a change in our management or control over us that stockholders may consider favorable. Our amended and restated certificate of incorporation and amended and restated bylaws:

- authorize the issuance of "blank check" preferred stock that could be issued by our Board of Directors to thwart a takeover attempt;
- establish a classified Board of Directors, as a result of which the successors to the directors whose terms have expired will be elected to serve from the time of election and qualification until the third annual meeting following their election;
- require that directors only be removed from office for cause and only upon a majority stockholder vote;
- provide that vacancies on our Board of Directors, including newly created directorships, may be filled only by a majority vote of directors then in office;
- limit who may call special meetings of stockholders;
- prohibit stockholder action by written consent, requiring all actions to be taken at a meeting of the stockholders;
- do not provide stockholders with the ability to cumulate their votes;
- require supermajority stockholder voting to effect certain amendments to our amended and restated certificate of incorporation and amended and restated bylaws; and
- require advance notification of stockholder nominations and proposals.

***Our stock repurchase program could affect the price of our common stock and increase volatility and may be suspended or terminated at any time, which may result in a decrease in the trading price of our common stock.***

In February 2015, our Board of Directors approved a share repurchase program of up to \$75 million. In March 2016 and May 2016, our Board of Directors further increased the amount authorized to repurchase by \$25 million and \$50 million, respectively, to an aggregate authorized amount of \$150 million. The timing and actual number of shares repurchased will depend on a variety of factors including price, corporate and regulatory requirements, an assessment by management and our Board of Directors of cash availability and other market conditions. The program may be suspended or discontinued at any time without prior notice. Repurchases pursuant to our stock repurchase program could affect the price of our common stock and increase its volatility. The existence of our stock repurchase program could also cause the price of our common stock to be higher than it would be in the absence of such a program and could potentially reduce the market liquidity for our common stock. 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 repurchased such shares. Any failure to repurchase shares after we have announced our intention to do so may negatively impact our reputation and investor confidence in us and may negatively impact our stock price. Although our stock repurchase program is intended to enhance long-term stockholder value, short-term stock price fluctuations could reduce the program's effectiveness.

*We do not currently intend to pay dividends on our common stock in the foreseeable future, and consequently, your ability to achieve a return on your investment will depend on appreciation in the price of our common stock.*

We have never declared or paid cash dividends on our common stock and do not anticipate paying any cash dividends to holders of our common stock in the foreseeable future. Consequently, investors must rely on sales of their common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investments. There is no guarantee that shares of our common stock will appreciate in value or even maintain the price at which our stockholders have purchased their shares.

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

Stock repurchase activity during the three months ended March 31, 2017 was as follows:

<b>Period Ended</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Programs</b>	<b>Approximate Dollar Value that May Yet be Purchased Under the Programs <sup>(1)</sup></b>
January 31, 2017	159,534	\$ 10.91	159,534	\$ 61,984,239
February 28, 2017	164,538	11.02	164,538	60,171,562
March 31, 2017	81,850	11.46	81,850	59,233,254
	<u>405,922</u>		<u>405,922</u>	

<sup>(1)</sup> On February 10, 2015, we announced that our Board of Directors had authorized a share repurchase program under which we are authorized to repurchase up to \$75.0 million of our outstanding common stock with no expiration date from the date of authorization. In March 2016 and May 2016, we increased our share repurchase program by \$25 million and \$50 million, respectively, for a total amount authorized of \$150 million. As of March 31, 2017, we had repurchased \$90.8 million of our outstanding common stock. Under the program, shares may be repurchased in privately negotiated and/or open market transactions, including under plans complying with Rule 10b5-1 under the Exchange Act. Our share repurchase program does not obligate us to acquire any specific number of shares.

**Item 3. Defaults Upon Senior Securities.**

Not applicable.

**Item 4. Mine Safety Disclosures.**

Not applicable.

**Item 5. Other Information.**

Not applicable.

**Item 6. Exhibits.**

<b>Exhibit Number</b>	<b>Exhibit Title</b>	<b>Incorporated by Reference</b>				<b>Provided Herewith</b>
		<b>Form</b>	<b>File No.</b>	<b>Exhibit No.</b>	<b>Filing Date</b>	
<a href="#">3.1</a>	Amended and Restated Certificate of Incorporation of RPX Corporation	S-1	333-171817	3.2	1/21/2011	
<a href="#">3.2</a>	Amended and Restated Bylaws of RPX Corporation	S-1/A	333-171817	3.4	4/18/2011	
<a href="#">10.1</a> *	Employment Offer Letter by and between the Registrant and Steve Swank, dated as of June 7, 2010					X
<a href="#">31.1</a>	Certification of Chief Executive Officer Pursuant to Rule 13-14(a) or 15(d)-14(a) of the Securities Exchange Act of 1934 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
<a href="#">31.2</a>	Certification of Chief Financial Officer Pursuant to Rule 13-14(a) or 15(d)-14(a) of the Securities Exchange Act of 1934 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
<a href="#">32.1</a>	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
<a href="#">32.2</a>	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
101.INS	XBRL Instance Document					X
101.SCH	XBRL Taxonomy Extension Schema Document					X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document					X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document					X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document					X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document					X

\* Indicates a management contract or compensatory plan.

**SIGNATURES**

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

RPX CORPORATION  
(Registrant)

Date: May 4, 2017

By: /s/ MARTIN E. ROBERTS  
Martin E. Roberts  
Chief Executive Officer  
(Principal Executive Officer)

Date: May 4, 2017

By: /s/ ROBERT H. HEATH  
Robert H. Heath  
Chief Financial Officer  
(Principal Financial Officer)

**RPX CORPORATION**  
ONE MARKET PLAZA, STEUART TOWER, SUITE 700  
SAN FRANCISCO, CA 94105

June 7, 2010

Steven S. Swank  
4001 Harding Place  
Nashville, TN 37215

Dear Steven:

RPX Corporation (the "Company") is pleased to offer you employment on the following terms:

1. **Position.** Your initial title will be Vice President of Account Management, and you will initially report to Geoffrey T. Barker, Chief Operating Officer. This is a full-time position.
  2. **Commencement of Employment.** This letter is conditioned upon your agreement to begin employment with the Company no later than July 1, 2010.
  3. **Cash Compensation.** The Company will pay you a starting salary at the rate of \$250,000 per year, payable in accordance with the Company's standard payroll schedule. This salary will be subject to adjustment pursuant to the Company's employee compensation policies in effect from time to time.
  4. **Year-End Bonus.** If you are still employed with the Company as of December 31<sup>st</sup>, 2010, the Company will pay you a guaranteed Year End Bonus of \$40,000 for the calendar year 2010. If you are still employed with the Company as of December 31<sup>st</sup>, 2011, the Company will pay you a guaranteed Year-End Bonus of \$75,000 for the calendar year 2011.
  5. **Equity Compensation.** As part of your offer, we are also pleased to offer you a grant of 216,111 Options on Common Stock of the Company. This grant is subject to approval by the Company's board of directors and will vest 25% upon completion of your first year of employment with the Company, with the remaining 75% vesting ratably on a monthly basis over three years.
  6. **Relocation Expense Reimbursement.** The Company will reimburse your reasonable relocation and related expenses that you incur in moving yourself, your family and your household from Tennessee to California and for which you provide RPX with written receipts, up to a total of \$50,000 (the "Moving Expenses"). The Moving Expenses will be nontaxable to you to the extent permitted by applicable federal and state law. In addition, the Company will pay you a signing bonus equal to the difference between \$50,000 and the Moving Expenses (the "Signing Bonus"). The Signing Bonus will be payable to you in a lump sum no later than 2½ months after the close of the calendar year in which you relocate to California, but only if you are still employed by the Company at the time of payment of the Signing Bonus. We understand that you own a home in Tennessee on which your monthly mortgage payment is \$2612. For each month beginning with August 2010 and ending upon the earlier of (i) the closing of the sale of such home, (ii) January 2011 and (iii) the termination of your employment with the Company, the Company will pay you an amount (the "Home Mortgage Reimbursement") which, after deductions for federal and California income taxes, will equal the amount you have paid for the monthly mortgage payment on such home in such month less any monthly rental income you may receive on such property. The Home Mortgage Reimbursement will be prorated for any partial month of ownership and will be taxable to you. You will submit your mortgage statement monthly at the end of the month for which it applies and will be reimbursed in the following month through the regular payroll cycle.
  7. **Employee Benefits.** As a regular employee of the Company, you will be eligible to participate in a number of Company-sponsored benefits. In addition, you will be entitled to paid time off in accordance with the Company's PTO policy, as in effect from time to time.
  8. **Proprietary Information and Inventions Agreement.** Like all Company employees, you will be required, as a condition of your employment with the Company, to sign the Company's standard Proprietary Information and Inventions Agreement, a copy of which is attached hereto as **Exhibit A**.
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9. **Employment Relationship.** Our benefits, payroll, and other human resource management services are provided through TriNet Employer Group, Inc., a professional employer organization. As a result of our arrangement with TriNet, TriNet will be considered your employer of record for these purposes and your managers at the Company will be responsible for directing your work, reviewing your performance, setting your schedule, and otherwise directing your work. Employment with the Company is for no specific period of time. Your employment with the Company will be “at will,” meaning that either you or the Company may terminate your employment at any time and for any reason, with or without cause. Any contrary representations that may have been made to you are superseded by this letter agreement. This is the full and complete agreement between you and the Company on this term. Although your job duties, title, compensation and benefits, as well as the Company’s personnel policies and procedures, may change from time to time, the “at will” nature of your employment may only be changed in an express written agreement signed by you and a duly authorized officer of the Company (other than you). While you render services to the Company, you will not engage in any other employment, consulting or other business activity (whether full-time or part-time) that would create a conflict of interest with the Company. By signing this letter of agreement, you confirm to the Company that you have no contractual commitments or other legal obligations that would prohibit you from performing your duties for the Company.

10. **Tax Matters.**

(a) **Withholding.** All forms of compensation referred to in this letter agreement are subject to reduction to reflect applicable withholding and payroll taxes and other deductions required by law.

(b) **Tax Advice.** You are encouraged to obtain your own tax advice regarding your compensation from the Company. You agree that the Company does not have a duty to design its compensation policies in a manner that minimizes your tax liabilities, and you will not make any claim against the Company or its Board of Directors related to tax liabilities arising from your compensation.

11. **Interpretation, Amendment and Enforcement.** This letter agreement and Exhibit A constitute the complete agreement between you and the Company, contain all of the terms of your employment with the Company and supersede any prior agreements, representations or understandings (whether written, oral or implied) between you and the Company. This letter agreement may not be amended or modified, except by an express written agreement signed by both you and a duly authorized officer of the Company. The terms of this letter agreement and the resolution of any disputes as to the meaning, effect, performance or validity of this letter agreement or arising out of, related to, or in any way connected with, this letter agreement, your employment with the Company or any other relationship between you and the Company (the “Disputes”) will be governed by California law, excluding laws relating to conflicts or choice of law. You and the Company submit to the exclusive personal jurisdiction of the federal and state courts located in San Francisco, California, in connection with any Dispute or any claim related to any Dispute.

\* \* \* \* \*

As required by law, your employment with the Company is contingent upon your providing legal proof of your identity and authorization to work in the United States. This offer is contingent upon our receipt of a satisfactory investigation report of your background.

You may indicate your agreement with the terms and accept this offer by signing and dating both the enclosed duplicate original of this letter agreement and the enclosed Proprietary Information and Inventions Agreement and returning them to me.

This offer shall remain in effect through 5:00pm June 15, 2010 after which time it shall become void.

Very truly yours,

/S/ GEOFFREY T. BARKER

By: Geoffrey T. Barker

Title: Chief Operating Officer

I have read and accept this employment offer:

/S/ STEVEN S. SWANK

Signature of Employee

DATED: 7/10/10

**Attachment**

Exhibit A: Proprietary Information and Inventions Agreement

## CERTIFICATIONS

I, Martin E. Roberts, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of RPX Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) 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(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 4, 2017

/s/ MARTIN E. ROBERTS

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Martin E. Roberts

Chief Executive Officer  
(Principal Executive Officer)

## CERTIFICATIONS

I, Robert H. Heath, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of RPX Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) 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(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 4, 2017

/s/ ROBERT H. HEATH

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Robert H. Heath

Senior Vice President & Chief Financial Officer  
(Principal Financial Officer)

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2017 of RPX Corporation, (the “Company”) as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Martin E. Roberts, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: May 4, 2017

/s/ MARTIN E. ROBERTS

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Martin E. Roberts

Chief Executive Officer

(Principal Executive Officer)

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER  
PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2017 of RPX Corporation, (the “Company”) as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Robert H. Heath, Senior Vice President & Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: May 4, 2017

/s/ ROBERT H. HEATH

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Robert H. Heath

Senior Vice President & Chief Financial Officer  
(Principal Financial Officer)