

Revenue Recognition Under ASC 606

February 21, 2018

David Anderson, Chief Financial Officer

Safe Harbor

The following presentation contains forward-looking statements, including statements regarding our future financial performance and business strategy, our plans and objectives for future operations, and our expectations regarding the future growth of a market for patent risk management, discovery services, and other legal services.

These forward-looking statements are subject to risks and uncertainties that could cause our actual results to differ materially from those reflected in the forward-looking statements. Many of the factors that could cause or contribute to such differences are described in the “Risk Factors” section of our most recent annual report on Form 10-K, and our quarterly reports on Form 10-Q, and our other filings with the SEC, including:

- we may experience significant quarterly fluctuations in our operating results,
- new legislation, regulations or court rulings related to enforcing patents could reduce the value of our service to clients or potential clients,
- we may not be able to compete effectively against others to attract new clients or acquire patent assets,
- we may not be successful with our new initiatives, and
- we may not be able to attract new clients and retain existing clients with respect to our patent risk management and discovery services.

In light of these risks and uncertainties, the forward-looking statements contained in this presentation may not occur, and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements. We are not able, at this time, to provide a forward-looking reconciliation to GAAP outlook for the non-GAAP financial metric outlook because of the difficulty of estimating certain items that are excluded from the non-GAAP financial metrics. We do not intend, and undertake no duty, to update any forward-looking statements to reflect future events or circumstances.

Important Information Regarding ASC 605 and 606

Historical financial information under ASC 605 and 606: We believe that showing our historical financial results under ASC 605 and ASC 606 provides additional transparency and that providing this additional disclosure in the short term will help our investors and analysts understand the impact of the change in revenue recognition standards, especially given the material difference expected in the timing of revenue recognition for our patent risk management services. Note that the presentation under ASC 605 is not a substitute for the new ASC 606 revenue recognition standard under GAAP applicable for the first quarter of 2018.

Guidance under ASC 605 and 606: The Company provided business outlook for the full year 2018 under ASC 606, as well as under ASC 605 for illustrative purposes and in order to provide additional transparency. The Company believes that providing this additional disclosure in the short term will help our investors and analysts understand the impact of the change in revenue recognition standards, especially given the material difference expected in the timing of revenue recognition for our patent risk management services. Note that the presentation under ASC 605 is not a substitute for the new ASC 606 revenue recognition standard under GAAP.

The 2017 and 2016 ASC 606 numbers are preliminary estimates and subject to change.

Agenda

Overview

Examples

1. Standard membership contract
2. Membership contract with catalyst (catalyst recognized as fee revenue)
3. Membership contract with catalyst (catalyst taken as pass-through)

Summary impact and guidance

New Revenue Accounting Standard (606)

Step 1: Identify the contract with the customer

Step 2: Identify the separate performance obligations of the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the separate performance obligations

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

Summary of Impact

What does not change?

- Customer billings; customer relationships
- Economics of overall business; cash flows
- Discovery services accounting
- Insurance accounting

What does change?

- Patent risk management
 - I/S: Subscription and fee revenue, patent amortization, others
 - B/S: Patent assets, deferred revenue, contract assets, others
 - Metrics: Net patent spend

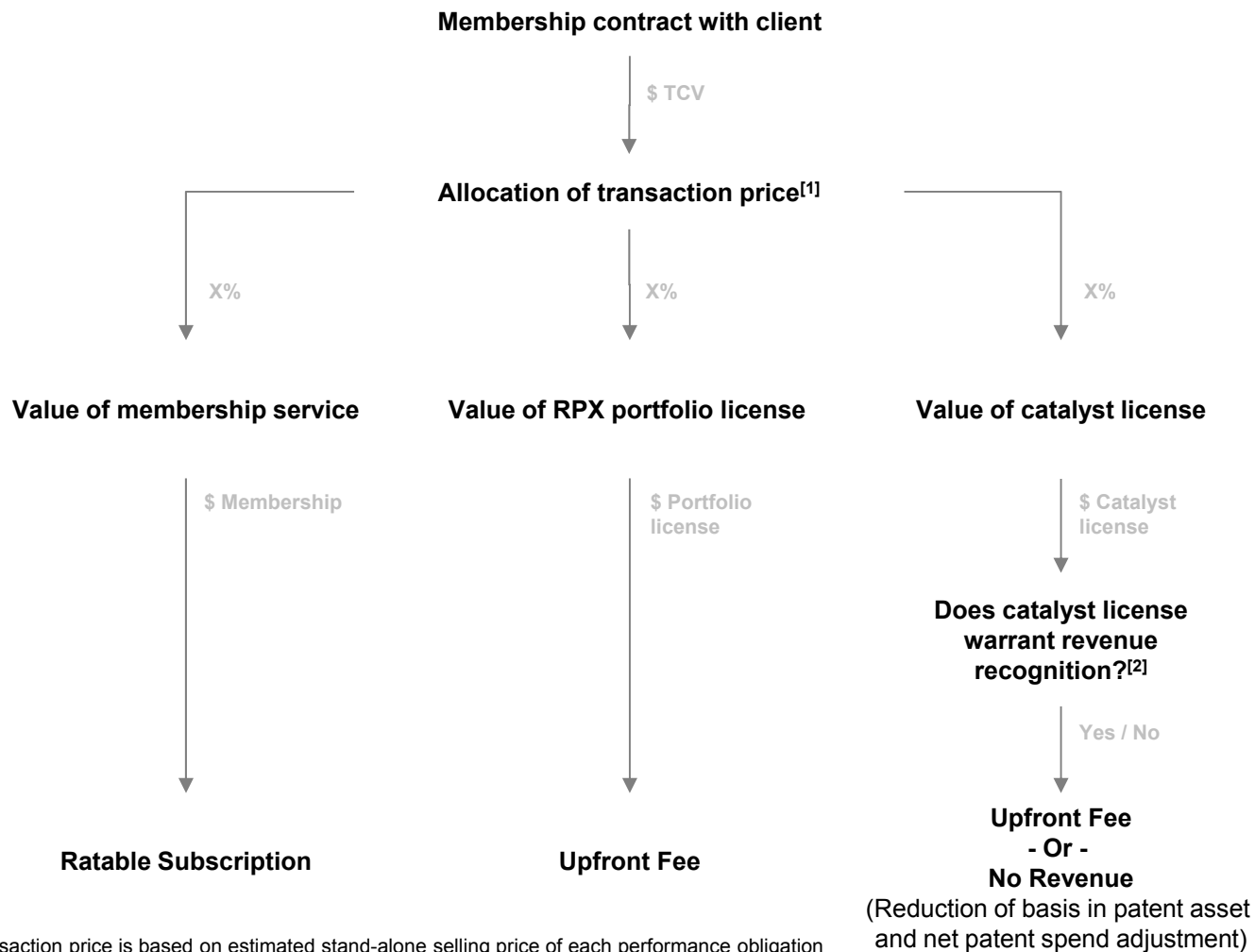
What are the impacts?

- Unaudited estimates of FY2017 and FY2016 income statements presented under ASC 606 have been provided for comparability
- Financial impact of changes to periods prior to 2016 will be recorded into retained earnings

Under ASC 606, Membership Will Comprise Up to Three Performance Obligations

	1	2	3
	Membership subscription	RPX portfolio license	Catalyst deal license (only if applicable)
Performance obligation	<ul style="list-style-type: none"> Patent risk management services i.e. Patent asset acquisitions and associated market intelligence and services 	<ul style="list-style-type: none"> For <i>new</i> clients: License to the extant RPX portfolio upon joining For <i>renewing</i> clients: Vesting into perpetual licenses for portfolios acquired during the prior membership term 	<ul style="list-style-type: none"> License to a “catalyst” portfolio
Notes on allocation	<ul style="list-style-type: none"> Generally the majority of the total contract value (TCV) if deal is not catalyst driven 	<ul style="list-style-type: none"> Generally a small percentage of the TCV 	<ul style="list-style-type: none"> Allocation depends on multiple factors, and requires significant judgment Recognition depends on the catalyst deal structure, timing
Recognition	Ratable (Subscription)	Upfront (Fee)	Upfront (Fee) - Or - No Revenue (“Pass-through”)

Allocating to Performance Obligations



^[1] Allocation of transaction price is based on estimated stand-alone selling price of each performance obligation

^[2] Agent v. principal evaluation that considers various factors including inventory risk and who delivers the license to the client

Agenda

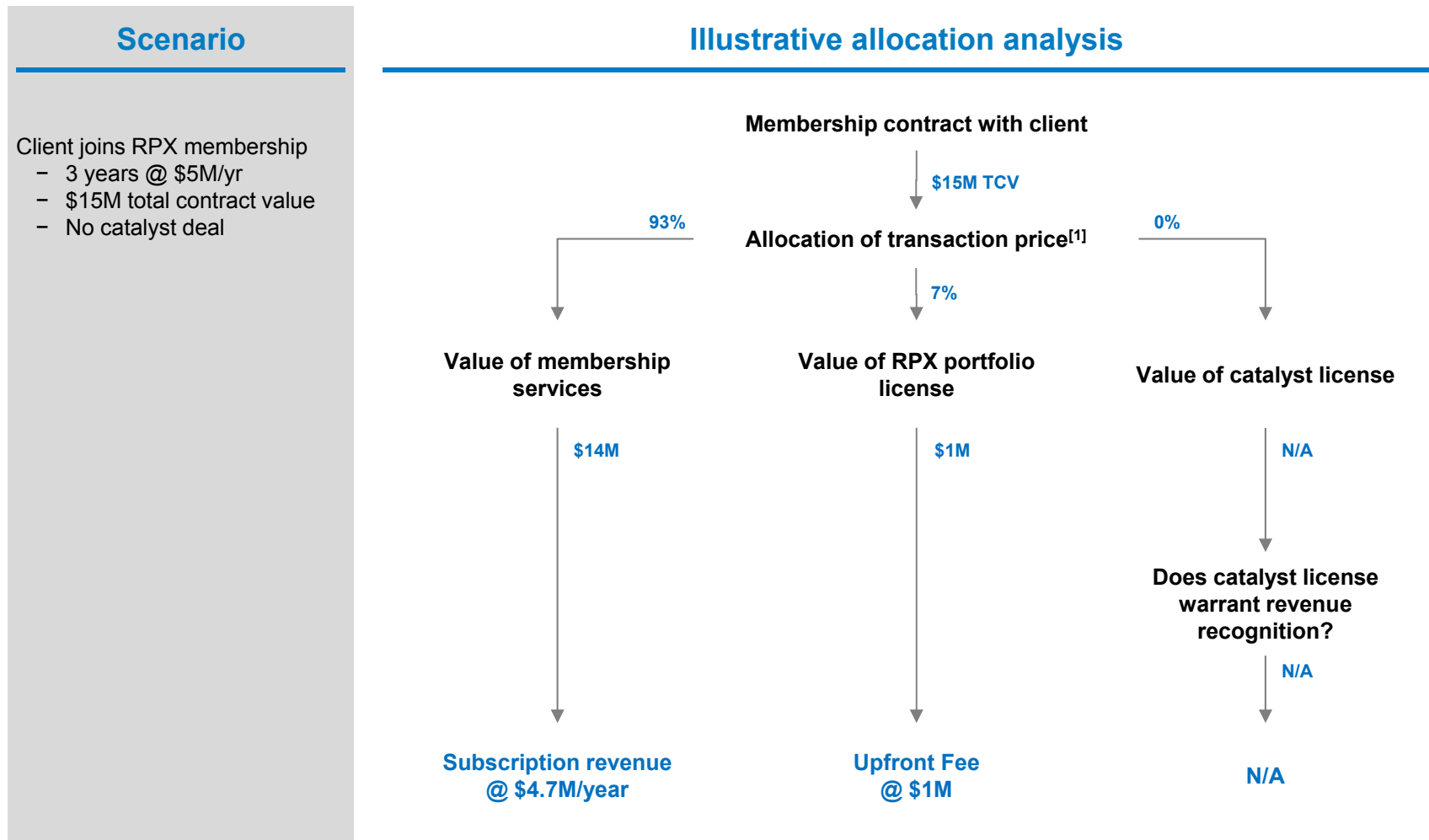
Overview

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Summary impact and guidance

Example 1: Standard Membership



^[1] Allocation of transaction price is based on estimated stand-alone selling price of each performance obligation. These allocation percentages are illustrative and may vary.

Example 1 (cont.): Standard Membership

Scenario	Income statement impact						
Client joins RPX membership - 3 years @ \$5M/yr - \$15M total contract value - No catalyst deal	ASC 605		Year 1	Year 2	Year 3	Total	
		Subscription	5.0	5.0	5.0	15.0	<ul style="list-style-type: none"> • Ratable treatment • Even distribution of bottom-line contribution
		Fee	-	-	-	-	
		Total revenue	5.0	5.0	5.0	15.0	
		Net patent spend	-	-	-	-	
		Patent amortization	-	-	-	-	
	Gross margin	5.0	5.0	5.0	15.0		
	Non-GAAP Adj. EBITDA-NPS	5.0	5.0	5.0	15.0		
	ASC 606		Year 1	Year 2	Year 3	Total	
		Subscription	4.7	4.7	4.7	14.0	<ul style="list-style-type: none"> • \$1M upfront fee for RPX portfolio license • Remaining \$14M of membership fee recognized ratably
		Fee	1.0	-	-	1.0	
		Total revenue	5.7	4.7	4.7	15.0	
		Net patent spend	-	-	-	-	
		Patent amortization	-	-	-	-	
	Gross margin	5.7	4.7	4.7	15.0		
Non-GAAP Adj. EBITDA-NPS	5.7	4.7	4.7	15.0			
Δ		Year 1	Year 2	Year 3	Total		
	Total revenue	+0.7	-0.3	-0.3	-	<ul style="list-style-type: none"> • Revenue and profits shift forward in time 	
	Gross margin	+0.7	-0.3	-0.3	-		
Non-GAAP Adj. EBITDA-NPS	+0.7	-0.3	-0.3	-			

Note: Allocation percentages are illustrative and may vary by client and deal

Example 2: Membership with Catalyst (Recognizing a Fee)

Scenario

Client joins RPX membership

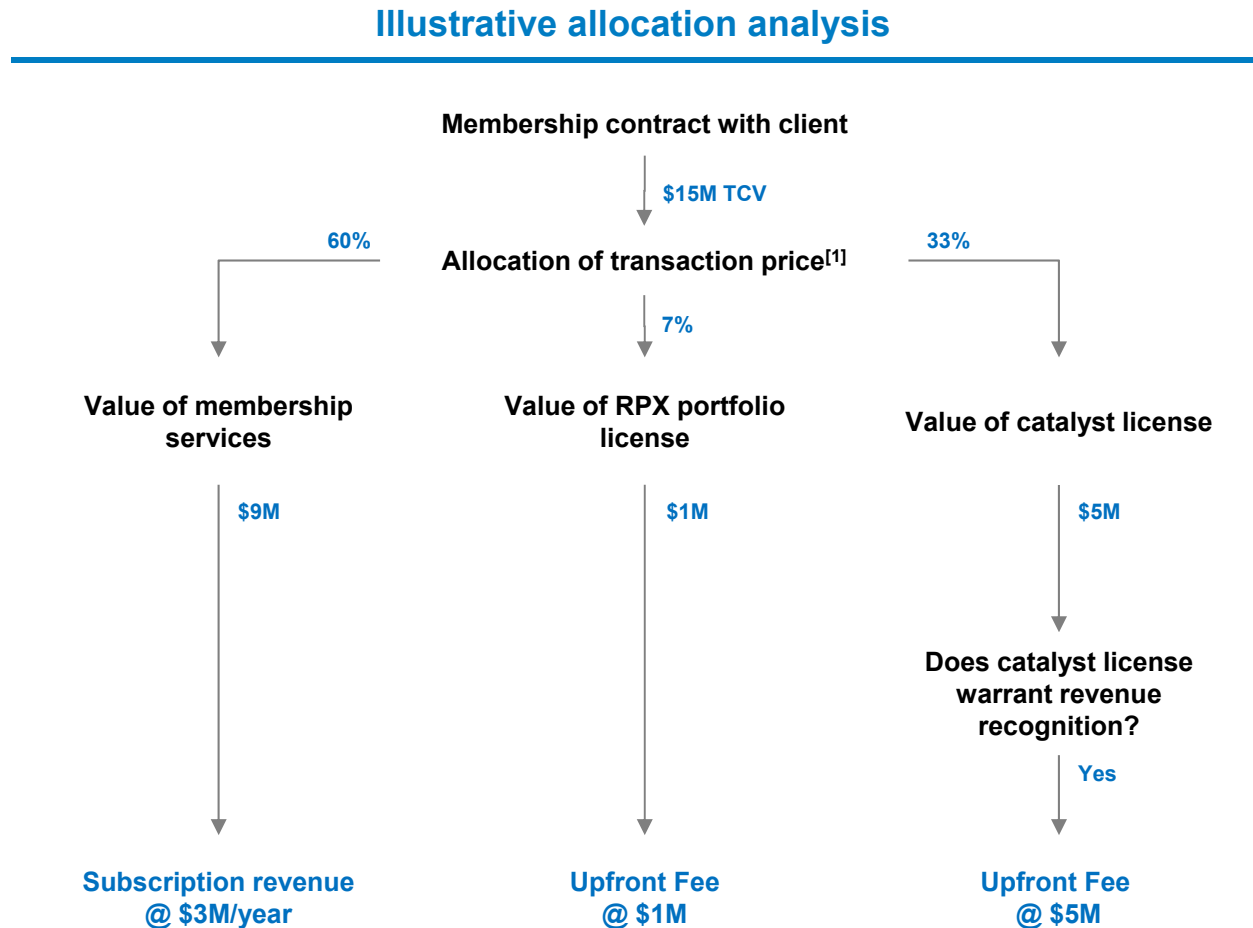
- 3 years @ \$5m/yr
- \$15m total contract value
- Catalyst deal

Catalyst deal

- \$10M acquisition payment
- 36 mo amortization
- Value to multiple clients

Accounting analysis

- RPX acted as principal in the catalyst deal
- Catalyst worth \$5M to the joining client



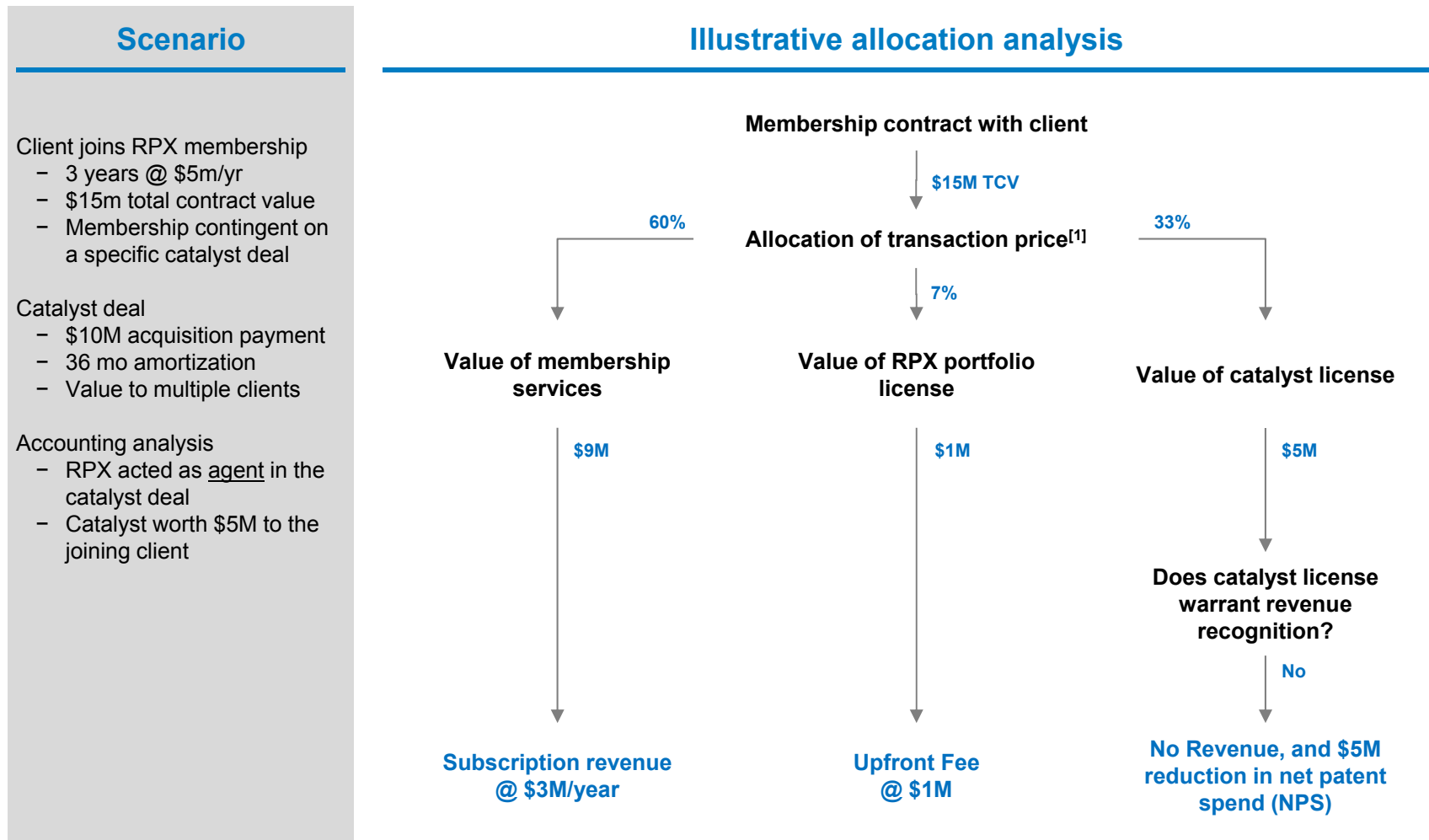
^[1] Allocation of transaction price is based on estimated stand-alone selling price of each performance obligation. These allocation percentages are illustrative and may vary.

Example 2 (cont.): Membership with Catalyst (Recognizing a Fee)

Scenario	Income statement impact							
<p>Client joins RPX membership</p> <ul style="list-style-type: none"> - 3 years @ \$5m/yr - \$15m total contract value - Catalyst deal <p>Catalyst deal</p> <ul style="list-style-type: none"> - \$10M acquisition payment - 36 mo amortization - Value to multiple clients <p>Accounting analysis</p> <ul style="list-style-type: none"> - RPX acted as principal in the catalyst deal - Catalyst worth \$5M to the joining client 	ASC 605		Year 1	Year 2	Year 3	Total		
		Subscription Fee	5.0	5.0	5.0	15.0	<ul style="list-style-type: none"> • Ratable treatment 	
		Total revenue	5.0	5.0	5.0	15.0		
		Net patent spend	10.0	-	-	10.0		
		Patent amortization	3.3	3.3	3.3	10.0		
	Gross margin	1.7	1.7	1.7	5.0			
			Non-GAAP Adj. EBITDA-NPS	(5.0)	5.0	5.0		
		ASC 606		Year 1	Year 2	Year 3	Total	
	Subscription Fee		3.0	3.0	3.0	9.0	<ul style="list-style-type: none"> • \$5M upfront fee for catalyst license • \$1M upfront fee for RPX portfolio license • Remaining \$9M of membership fee recognized ratably 	
	Total revenue		6.0	-	-	6.0		
Net patent spend	9.0		3.0	3.0	15.0			
Patent amortization	10.0		-	-	10.0			
Gross margin	3.3	3.3	3.3	10.0				
		Non-GAAP Adj. EBITDA-NPS	(1.0)	3.0	3.0	5.0		
	Δ		Year 1	Year 2	Year 3	Total		
Total revenue		+4.0	-2.0	-2.0	-	<ul style="list-style-type: none"> • Revenue and profits shift forward in time 		
Gross margin		+4.0	-2.0	-2.0	-			
Non-GAAP Adj. EBITDA-NPS	+4.0	-2.0	-2.0	-				

Note: Allocation percentages are illustrative and may vary by client and deal

Example 3: Membership with Catalyst (Taken Pass-Through)



^[1] Allocation of transaction price is based on estimated stand-alone selling price of each performance obligation. These allocation percentages are illustrative and may vary.

Example 3 (cont.): Membership with Catalyst (Taken Pass-Through)

Scenario	Income statement impact								
<p>Client joins RPX membership</p> <ul style="list-style-type: none"> - 3 years @ \$5m/yr - \$15m total contract value - Membership contingent on a specific catalyst deal <p>Catalyst deal</p> <ul style="list-style-type: none"> - \$10M acquisition payment - 36 mo amortization - Value to multiple clients <p>Accounting analysis</p> <ul style="list-style-type: none"> - RPX acted as <u>agent</u> in the catalyst deal - Catalyst worth \$5M to the joining client 	ASC 605		Year 1	Year 2	Year 3	Total			
		Subscription	5.0	5.0	5.0	15.0	<ul style="list-style-type: none"> • Ratable treatment • \$10M of NPS 		
		Fee	-	-	-	-			
		Total revenue	5.0	5.0	5.0	15.0			
		Net patent spend	10.0	-	-	10.0			
		Patent amortization	3.3	3.3	3.3	10.0			
		Gross margin	1.7	1.7	1.7	5.0			
		Non-GAAP Adj. EBITDA-NPS	(5.0)	5.0	5.0	5.0			
			ASC 606		Year 1	Year 2	Year 3	Total	
		Subscription		3.0	3.0	3.0	9.0	<ul style="list-style-type: none"> • \$5M of TCV taken pass-through, <u>not</u> recognized • \$1M upfront fee for RPX portfolio license • Remaining \$9M recognized ratably • \$5M of NPS • \$5M contract asset recorded for pass-through 	
Fee	1.0	-		-	1.0				
Total revenue	4.0	3.0		3.0	10.0				
Net patent spend	5.0	-		-	5.0				
Patent amortization	1.7	1.7		1.7	5.0				
Gross margin	2.3	1.3		1.3	5.0				
Non-GAAP Adj. EBITDA-NPS	(1.0)	3.0		3.0	5.0				
	Δ			Year 1	Year 2	Year 3	Total		
Total revenue		-1.0		-2.0	-2.0	-5.0	<ul style="list-style-type: none"> • Revenue lower under 606 • NPS lower under 606 • Profits shift forward in time 		
Gross margin		+0.7	-0.3	-0.3	-				
Non-GAAP Adj. EBITDA-NPS	+4.0	-2.0	-2.0	-					

Note: Allocation percentages are illustrative and may vary by client and deal

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Summary impact and guidance

Patent Risk Segment Financials Under ASC 606

- ▶ **No changes to customer relationships, cash flow, or economics**
- ▶ **Free cash flow is management's preferred way to evaluate business**
 - Defined as cash flow from operations – spend on patents and PPE
 - Annual cash flow remains forecastable
- ▶ **Revenue, NPS, Non-GAAP Adj. EBITDA more difficult to forecast**
 - Hard to forecast revenue impact of early renewals, catalyst-driven bookings
 - Net patent spend can be impacted by pass-through treatment of catalyst deals
- ▶ **Additional quarter-to-quarter volatility**

Summary of Typical Impact by Line Item

	Typical adjustment for 606	Reasons
Income Statement	Subscription revenue	Lower <ul style="list-style-type: none"> Some membership revenue reclassified as fee or taken pass-through (no revenue recognized)
	Fee revenue	Higher <ul style="list-style-type: none"> Some membership revenue reclassified as fee revenue
	Patent amortization	Lower <ul style="list-style-type: none"> Pass-through portion of catalyst acquisitions not recorded as a patent asset, so not amortized
	Net patent spend^[1]	Lower <ul style="list-style-type: none"> Pass-through portion of catalyst acquisitions not recorded as a patent asset, so not included in NPS
Balance Sheet	Deferred revenue	Lower <ul style="list-style-type: none"> Subscription revenue generally lower, or taken upfront in fee yielding lower deferred revenue
	Contract assets	Higher <ul style="list-style-type: none"> Contract assets can result from fees allocated to catalysts or portfolio licenses that have not yet been fully billed
	Patent assets	Lower <ul style="list-style-type: none"> Pass-through portion of catalyst acquisitions not recorded as a patent asset

^[1] Not an income statement item, but used in the calculation of Non-GAAP adjusted EBITDA – NPS.

Income Statement Results Under ASC 605 and 606

Preliminary estimate, Unaudited^[4]
(\$ in millions)

	2017			2016		
	ASC 605	New Revenue Standard Adjustment	ASC 606	ASC 605	New Revenue Standard Adjustment	ASC 606
Revenue						
Subscription revenue	\$ 246.8	\$ (60.0)	\$ 186.8	\$ 255.4	\$ (62.8)	\$ 192.7
Fee-related revenue	5.4	23.6	29.0	11.6	39.5	51.1
Total patent risk management revenue	252.3	(36.4)	215.8	267.0	(23.2)	243.7
Discovery revenue	78.2	-	78.2	66.1	-	66.1
Total revenue	330.5	(36.4)	294.0	333.1	(23.2)	309.9
Cost of revenue	203.7	(27.3)	176.4	197.3	32.3	164.9
Selling, general and administrative expenses	90.5	0.6	91.1	100.5	(0.6)	99.8
Impairment losses	94.1	-	94.1	-	-	-
Operating income (loss)	(57.8)	(9.8)	(67.6)	35.4	9.7	45.1
Interest and other income (expense), net	(1.3)	-	(1.3)	(3.1)	-	(3.1)
Income (loss) before provision for income taxes	(59.1)	(9.8)	(68.8)	32.3	9.7	42.0
Provision for income taxes	20.1	0.0	20.1	14.1	3.6	17.7
Net income (loss)	<u>\$ (79.1)</u>	<u>\$ (9.8)</u>	<u>\$ (88.9)</u>	<u>\$ 18.2</u>	<u>\$ 6.1</u>	<u>\$ 24.3</u>

Reconciliation of Net Income (Loss) to Non-GAAP Adjusted EBITDA Less Net Patent Spend

Net income (loss)	\$ (79.1)	\$ (9.8)	\$ (88.9)	\$ 18.2	\$ 6.1	\$ 24.3
Provision for income taxes	20.1	0.0	20.1	14.1	3.6	17.7
Interest and other expense, net	1.3	-	1.3	3.1	-	3.1
Impairment losses ^[2]	94.1	-	94.1	-	-	-
Stock-based compensation ^[1]	15.0	-	15.0	18.6	-	18.6
Depreciation and amortization	168.1	(27.3)	140.8	171.6	(32.9)	138.8
Non-GAAP adjusted EBITDA ^[3]	219.4	(37.1)	182.3	225.6	(23.2)	202.4
Net patent spend	(106.0)	8.1	(97.9)	(117.4)	17.0	(100.4)
Non-GAAP adjusted EBITDA less net patent spend	<u>\$ 113.4</u>	<u>\$ (29.0)</u>	<u>\$ 84.4</u>	<u>\$ 108.2</u>	<u>\$ (6.2)</u>	<u>\$ 102.0</u>

^[1] RPX excludes stock-based compensation and related employer payroll taxes from its non-GAAP financial measures.

^[2] RPX excludes non-cash impairment losses from its non-GAAP financial measures.

^[3] RPX calculates non-GAAP adjusted EBITDA as GAAP earnings before other income or expenses, net, provision for income taxes, depreciation, amortization, non-cash impairment losses, and stock-based compensation expenses (inclusive of related employer payroll taxes).

^[4] 2017 and 2016 ASC 606 numbers are preliminary estimates and subject to change

FY 2018 Guidance

<i>In millions</i>	Guidance for FY 2018	
	Guidance (ASC 606)	Illustrative (ASC 605)
Subscription Revenue		\$200 - \$210
Fee Revenue		\$5 - \$10
Total Patent Risk Management Revenue	\$170 - \$195	\$205 - \$220
Discovery Revenue	\$62 - \$71	\$62 - \$71
Total Revenue	\$232 - \$266	\$267 - \$291
Cost of Revenue ^[1]	\$140 - \$149	\$159 - \$167
SG&A ^[1]	\$66 - \$72	\$66 - \$72
Operating Income^[1]	\$27 - \$40	\$42 - \$52
Net Income^[1]	\$18 - \$28	\$30 - \$38
Patent risk management adjusted EBITDA ^[1]	\$120 - \$140	\$155 - \$169
Discovery services adjusted EBITDA ^[1]	\$13 - \$17	\$13 - \$17
Total adjusted EBITDA^[1]	\$133 - \$157	\$168 - \$186
Net Patent Spend (NPS)	\$70 - \$90	\$80 - \$100
Consolidated adjusted EBITDA less net patent spend ^[1]	\$53 - \$77	\$78 - \$96
Free cash flow^{[1][2]}	\$65 - \$85	\$65 - \$85
Gross Patent Spend (GPS)	>\$150	>\$150
Effective Tax Rate ^[1]	32%	29%
WA Diluted Shares	51	51

^[1] Cost of Revenue, SG&A, operating income, net income, Adjusted EBITDA, Free cash flow, and effective tax rate are non-GAAP metrics.

^[2] Operating cash flow less capital expenditures including on patents

Thank You
