RPX Corp
Form 10-Q
May 07, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2012

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

RPX Corporation

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**26-2990113**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**

One Market Plaza, Suite 800,

San Francisco, California 94105

(Address of Principal Executive Offices and Zip Code)

(866) 779-7641

Registrant s Telephone Number, including Area Code

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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x 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 ¨	Accelerated filer ¨
Non-accelerated filer x (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

On April 30, 2012, 50,136,584 shares of the registrant s common stock, $0.0001 par value, were outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

RPX Corporation

Consolidated Balance Sheets

(in thousands, except per share data)

(unaudited)

	March 31, 2012	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	$ 101,569	$ 106,749
Short-term investments	150,535	126,976
Restricted cash		500
Accounts receivable	6,497	16,160
Prepaid expenses and other current assets	14,771	12,124
Deferred tax assets	5,192	5,192
Total current assets	278,564	267,701
Patent assets, net	159,047	163,352
Property and equipment, net	3,138	2,317
Goodwill and intangible assets, net	3,284	3,512
Restricted cash, less current portion	147	147
Deferred tax assets, less current portion	300	300
Other assets	318	665
Total assets	$ 444,798	$ 437,994
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	783	821
Accrued liabilities	3,522	7,762
Deferred revenue	97,432	96,513
Deferred payment obligations	1,869	5,056
Other current liabilities	2,029	2,182
Total current liabilities	105,635	112,334
Deferred revenue, less current portion	8,369	11,762
Deferred tax liabilities	14,695	14,695
Other liabilities	49	119
Total liabilities	128,748	138,910
Commitments and contingencies (Note 12)		
Common stock, $0.0001 par value 200,000 shares authorized: 50,090 and 49,145 shares issued and outstanding as of March 31, 2012 and December 31, 2011, respectively	5	5
Additional paid-in capital	268,187	259,315
Retained earnings	47,868	39,787

Accumulated other comprehensive loss	(10)	(23)
Total stockholders equity	316,050	299,084
Total liabilities and stockholders equity	$ 444,798	$ 437,994

See accompanying notes to consolidated financial statements.

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RPX Corporation

Consolidated Statements of Operations

(in thousands, except per share data)

(unaudited)

	Three Months Ended March 31, 2012	2011
Revenue	$ 43,849	$ 34,390
Cost of revenue	18,017	13,665
Selling, general and administrative expenses	13,223	8,110
(Gain) on sale of patent assets, net	(177)	
Operating income	12,786	12,615
Interest income	51	26
Interest and other expense, net	(71)	(399)
Income before provision for income taxes	12,766	12,242
Provision for income taxes	4,685	5,547
Net income	$ 8,081	$ 6,695
Net income available to common stockholders:		
Basic	$ 7,840	$ 1,046
Diluted	$ 7,853	$ 1,249
Net income per common share:		
Basic	$ 0.16	$ 0.14
Diluted	$ 0.15	$ 0.14
Weighted-average shares used in computing net income per common share:		
Basic	48,308	7,221
Diluted	51,226	9,036

See accompanying notes to consolidated financial statements.

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RPX Corporation

Consolidated Statements of Comprehensive Income

(in thousands)

(unaudited)

	Three Months Ended March 31, 2012	2011
Net income	$ 8,081	$ 6,695
Other comprehensive income, net of tax:		
Unrealized gains on available-for-sale securities:		
Unrealized holding gains arising during the period	14	
Less: reclassification adjustment for gains included in net income	(1)	
Net unrealized gains on available-for-sale securities	13	
Other comprehensive income, net of tax	13	
Comprehensive income	$ 8,094	$ 6,695

See accompanying notes to consolidated financial statements.

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RPX Corporation

Consolidated Statements of Cash Flows

(in thousands)

(unaudited)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Cash flows from operating activities		
Net income	$ 8,081	$ 6,695
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	18,125	13,667
Stock-based compensation	2,491	1,048
Excess tax benefit from stock-based compensation	(4,494)	
Imputed interest on deferred payment obligations	63	263
Gain on sale of patent assets	(177)	
Amortization of premium on investments	1,020	68
Deferred taxes		(11)
Other	(13)	
Changes in assets and liabilities:		
Accounts receivable	9,663	11,887
Prepaid expenses and other assets	(1,208)	1,582
Accounts payable	(38)	(18)
Accrued and other liabilities	(5,049)	(5,740)
Deferred revenue	(2,474)	10,203
Net cash provided by operating activities	25,990	39,644
Cash flows from investing activities		
Purchases of investments classified as available-for-sale	(75,255)	(15,100)
Maturities and sale of investments classified as available-for-sale	53,844	
Decrease in restricted cash	500	
Purchases of intangible assets	(33)	
Purchases of property and equipment	(882)	(386)
Acquisitions of patent assets	(12,515)	(19,139)
Proceeds from sale of patent assets	200	
Net cash used in investing activities	(34,141)	(34,625)
Cash flows from financing activities		
Repayments of principal on deferred payment obligations	(3,250)	(9,288)
Initial public offering-related costs		(762)
Proceeds from exercise of stock options and other common stock issuances	1,727	228
Excess tax benefit from stock-based compensation	4,494	
Net cash provided by (used in) financing activities	2,971	(9,822)
Net decrease in cash and cash equivalents	(5,180)	(4,803)
Cash and cash equivalents at beginning of period	106,749	46,656
Cash and cash equivalents at end of period	$ 101,569	$ 41,853

Non-cash investing and financing activities		
Change in patent assets purchased and accrued but not paid	$ 865	$ 200
Intangible assets received in barter transactions		120
Initial public offering-related costs accrued but not paid		812

See accompanying notes to consolidated financial statements.

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RPX Corporation

Notes to Consolidated Financial Statements

(unaudited)

1. Nature Of Business

RPX Corporation (also referred to herein as RPX or the Company) helps companies reduce patent-related risk and expense. The Company provides a subscription-based patent risk management solution that facilitates more efficient exchanges of value between owners and users of patents compared to transactions driven by actual or threatened litigation. The core of the Company s solution is defensive patent aggregation, in which it acquires patents or licenses to patents, which the Company refers to collectively as patent assets, that are being or may be asserted against the Company s current and prospective clients. The Company s clients pay an annual subscription fee and in return, receive a license from the Company to substantially all of its patent assets. The Company also provides its clients access to its proprietary patent market intelligence and data.

2. Summary Of Significant Accounting Policies

Basis of Presentation

The accompanying interim consolidated financial statements of the Company are unaudited, and have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) for Quarterly Reports on Form 10-Q and reflect all adjustments of a normal, recurring nature that are, in the opinion of management, necessary for a fair presentation of results for these interim periods. The consolidated financial statements do not include all of the information and note disclosures required by U.S. generally accepted accounting principles (U.S. GAAP) for complete financial statements, therefore they should be read in conjunction with the Consolidated Financial Statements and Notes thereto for the fiscal year ended December 31, 2011 included in the Company s Annual Report on Form 10-K filed with the SEC on March 26, 2012.

Principles of Consolidation

The accompanying condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, contingent assets and liabilities, and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period covered by the consolidated financial statements and accompanying notes. The Company bases its estimates on various factors and information which may include, but are not limited to, history and prior experience, expected future results, new related events and current economic conditions, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ materially from those estimates.

Revenue Recognition

The Company recognizes revenue in accordance with Accounting Standards Codification (ASC) 605, *Revenue Recognition* (ASC 605) and related authoritative guidance. The primary source of the Company s revenue is fees paid by its clients under subscription agreements. The Company believes that its patent risk management solution comprises a single deliverable and thus the Company recognizes each subscription fee ratably over the non-cancelable term for which the fee applies. Revenue is recognized net of any discounts or other contractual incentives. The Company starts recognizing revenue when all of the following criteria have been met:

Persuasive evidence of an arrangement exists. All subscription fees are supported by a dually executed subscription agreement.

Delivery has occurred or services have been rendered. The subscription agreement calls for the Company to provide its patent risk management solution over a specific term commencing on the agreement effective date. Because services are not on an individualized basis (*i.e.*, the Company generally performs its services on behalf of all of its clients as opposed to each client individually), delivery occurs automatically with the passage of time. Consequently, the Company recognizes subscription revenue ratably.

Seller s price to the buyer is fixed or determinable. Each client s annual subscription fee is based on the Company s fee schedule in effect at the time of the client s initial agreement. A client s subscription fee is calculated using its fee schedule and its normalized operating income, which is defined as the greater of (i) the average of the three most recently reported fiscal year s operating income and (ii) 5% of the most recently reported fiscal years revenue. The fee for the first year of the agreement is typically determined and invoiced at the time of contract execution. The fee for each subsequent year of the agreement is generally calculated and invoiced in advance prior to each anniversary date of the agreement.

Collectability is reasonably assured. Subscription fees are generally collected on or near the effective date of the agreement and again at or near each anniversary date thereof. The Company does not recognize revenue in instances where collectability is not reasonably assured. Generally, the Company s subscription agreements state that all fees paid are non-refundable.

RPX Corporation

Notes to Consolidated Financial Statements (Continued)

(unaudited)

In some limited instances, the subscription agreement includes a contingency clause, giving one or both parties an option to terminate the agreement and receive a full refund if contingencies are not resolved within a defined time period. In those instances, revenue will not be recognized until all contingencies have been removed. The revenue earned during the period between the effective date of the agreement and the contingency removal date is recognized on the contingency removal date. Thereafter, revenue is recognized ratably over the remaining subscription term.

To the extent that the Company is contractually able, the Company grants its clients a term license to, and a release from all prior damages associated with, each patent asset in the Company s portfolio. The term license to each patent asset converts to a perpetual license at the end of a contractually specified vesting period, provided that the client is a member at such time. The Company does not view the conversion from term license to perpetual license to be a separate deliverable in its arrangements with its clients because the utility of, access to and freedom to practice the inventions covered by the patent asset is no different between a term and perpetual license. The Company does not view providing longer term access to the patent asset as a new deliverable separate from the term license.

In some instances, the Company accepts a payment from a client to finance part or all of an acquisition. The Company refers to such transactions as structured acquisitions. Structured acquisitions where the Company accepts payment from more than one client is referred to as a syndicated acquisition. The accounting for structured acquisitions is complex and often requires judgments on the part of management as to the appropriate accounting treatment. In accordance with ASC 605-45, *Revenue Recognition: Principal Agent Considerations*, in instances where the Company substantively acts as an agent to acquire patent rights from a seller on behalf of clients who are paying for such rights separately from their subscription agreements, the Company may treat the client payments on a net basis. When treated on a net basis, there may be little or no revenue recognized for such contributions, and the basis of the acquired patent rights may exclude the amounts paid by the contributing client based on the Company s determination that it is not the principal in these transactions. In these situations, where the Company substantively acts as an agent, the contributing clients are typically defendants in an active or threatened patent infringement litigation filed by the owner of a patent. The Company s involvement is to assist its clients to secure a dismissal from litigation and a license to the underlying patents.

Key indicators evaluated to reach the determination that the Company is not the principal in the transaction include:

- the seller of the patent assets is generally viewed as the primary obligor in the arrangement, given that it owns and controls the underlying patent(s) and thus has the absolute authority to grant and deliver any release from past damages and dismissal from litigation, as well the general terms of the license granted;

- the Company has no inventory risk, as the clients generally enter into their contractual obligations with the Company prior to or contemporaneous to the Company entering into its contractual obligation with the seller;

- the Company is not involved in the determination of the product or service specification and has no ability to change the product or perform any part of the service in connection with these transactions, as the seller owns the underlying patent(s); and

- the Company has limited or no credit risk, as each respective client has a contractually binding obligation, and in many instances the Company collects the client contribution prior to making a payment to the seller.

Concentration of Risk

The Company is subject to concentrations of credit risk principally attributable to cash, cash equivalents, short-term investments and accounts receivable. The Company s unrestricted cash balances deposited in U.S. banks are non-interest bearing and are insured up to the Federal Deposit

Insurance Corporation (FDIC) limits. Cash equivalents primarily consist of institutional money market funds, U.S. government and agency securities, municipal bonds and commercial paper denominated in U.S. dollars.

Credit risk with respect to accounts receivable is generally mitigated by short collection periods and/or subscription agreements that provide for payments in advance of the rendering of services. As of March 31, 2012, two clients accounted for 69% and 16% of accounts receivable and as of December 31, 2011, four clients accounted for 26%, 20%, 14% and 12% of accounts receivable. No client accounted for more than 10% of subscription fee revenue for the three months ended March 31, 2012 or 2011.

Fair Value Measurements

The Company s financial assets and liabilities are measured and reported at fair value in accordance with ASC 820, *Fair Value Measurements and Disclosures* (ASC 820). Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the measurement date. ASC 820 establishes a hierarchy for inputs used in measuring fair value that minimizes the use of unobservable inputs by requiring the use of observable market data when available. Observable inputs are inputs that market participants would use in pricing the asset or liability based on active market data. Unobservable inputs are inputs that reflect the Company s assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available in the circumstances.

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Notes to Consolidated Financial Statements (Continued)

(unaudited)

The fair value hierarchy is comprised of the three input levels summarized below:

Level 1 Valuations based on quoted prices in active markets for identical assets or liabilities and readily accessible by the Company at the reporting date.

Level 2 Valuations based on inputs other than quoted prices included within Level 1 that are observable for assets or liabilities, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument.

Level 3 Valuations based on inputs that are unobservable.

The carrying amounts of the Company s financial instruments, which include cash equivalents, short-term investments, accounts receivable and accounts payable, approximate their fair values due to their short maturities. Based on borrowing rates currently available to the Company for the deferred payment obligations with similar terms, and considering the Company s credit risk, the carrying value of the deferred payment obligations approximate fair value.

Cash and Cash Equivalents

The Company s cash and cash equivalents principally consist of institutional money market funds, corporate bonds, municipal bonds and commercial paper denominated in U.S. dollars. Cash equivalents are highly liquid, short-term investments having an original maturity of 90 days or less that are readily convertible to known amounts of cash.

Short-Term Investments

The Company holds short-term investments in U.S. government and agency securities, commercial paper corporate bonds, and municipal bonds with maturities greater than 90 days, which are carried at fair value on the consolidated balance sheets and classified as available-for-sale. The Company considers its investments as available to support current operations. As a result, the Company classifies its investments including those with stated maturities beyond twelve months, as current assets in the accompanying consolidated balance sheets. Any unrealized gains or losses are recorded, net of estimated taxes, in accumulated other comprehensive income, a component of stockholders equity. Realized gains and losses are recognized upon sale. The specific identification method is used to determine the cost basis of fixed income securities sold.

The Company periodically evaluates its investments for impairment due to declines in market value considered to be other-than-temporary. This evaluation consists of several qualitative and quantitative factors, including the Company s ability and intent to hold the investment until a forecasted recovery occurs, as well as any decline in the investment quality of the security and the severity and duration of the unrealized loss. In the event of a determination that a decline in market value is other-than-temporary, the Company will recognize an impairment loss, and a new cost basis in the investment will be established. To date, the Company has not recorded any impairment related to its investments in its consolidated statements of operations.

Restricted Cash

The Company had restricted cash of $0.1 million and $0.6 million as of March 31, 2012 and December 31, 2011, respectively, pledged against its lines of credit. See Note 11.

Internal-Use Software and Website Development Costs

The Company capitalizes development costs related to internal-use software and its website and records such amounts as property and equipment, net, on its consolidated balance sheets. These costs include personnel and personnel-related expenses and consultant fees incurred during the application development stages of the project. Costs related to preliminary project activities, minor enhancement and maintenance, and post-implementation activities are expensed as incurred. Internal-use software is amortized on a straight-line basis over its useful life, which is generally three years, beginning on the date the software is placed into service. Management evaluates the useful lives of these assets on an annual basis and tests for impairment whenever events or changes in circumstances occur that could impact the recoverability of these assets.

During the three months ended March 31, 2012 and 2011, the Company capitalized $0.9 million and $0.4 million, respectively, of internal-use software and website development costs. Amortization of internal-use software was $0.1 million and nil for the three months ended March 31, 2012 and 2011, respectively.

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Notes to Consolidated Financial Statements (Continued)

(unaudited)

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired in a business combination. The Company evaluates goodwill for impairment on an annual basis during its third fiscal quarter or whenever events and changes in circumstances suggest that the carrying amount may not be recoverable. Because the Company has one reporting unit, the Company utilizes the entity-wide approach to assess goodwill for impairment. There have been no impairments of goodwill recorded in the Company s consolidated statement of operations for the three months ended March 31, 2012.

Patent Assets

The Company generally acquires patent assets from third parties using cash and contractual deferred payments. Patent assets are recorded at fair value. The fair value of the assets acquired is generally based on the fair value of the consideration exchanged. The asset value includes the cost of legal and other fees associated with the acquisition of the assets. Costs incurred to maintain and prosecute patents and patent applications are expensed as incurred.

Because each client receives a license to the vast majority of the Company s patent assets, the Company is unable to reliably determine the pattern over which its patent assets are consumed. As a result, the Company amortizes each patent asset on a straight-line basis. Generally, the amortization period is equal to the shorter of the asset s estimated useful life and the remaining statutory life. Estimating the economic useful life of patent assets requires significant management judgment. The Company considers various factors in estimating the economic useful lives of its patent assets, including the applicability of the assets to future clients, the vesting period for current clients to obtain perpetual licenses to such patent assets, any contractual commitments by clients that are related to such patent assets, its estimate of the period of time during which the Company may sign subscription agreements with prospective clients that may find relevance in the patent assets, the vesting period for which such clients earn the right to a perpetual license in the asset and the remaining contractual term of the Company s existing clients at the time of acquisition. In instances where the Company obtains patent rights that have related client committed cash flows that extend beyond the statutory life of the underlying patents, the useful life may extend beyond the statutory life of the patents. The Company periodically evaluates whether events and circumstances have occurred that may warrant a revision to the remaining estimated useful life of its patent assets.

In instances where the Company sells patent assets, the amount of consideration received is compared to the asset s carrying value to determine and recognize a gain or loss.

Intangible Assets, Net

Intangible assets, net primarily consists of intangible assets acquired from other companies as a result of acquisitions. Such assets are capitalized and amortized on a straight-line basis over the estimated useful life of the intangible assets. Intangible assets, net excludes patent-related intangible assets, which are recorded within patent assets, net in the accompanying consolidated balance sheets.

Comprehensive Income

Comprehensive income consists of net income and charges or credits to stockholders equity primarily related to changes in unrealized gains or losses on marketable securities, net of taxes.

Recently Adopted and Recently Issued Accounting Standards

In June 2011, the FASB issued ASU 2011-05, *Presentation of Comprehensive Income* (ASU 2011-05), which requires companies to present the components of net income and other comprehensive income either in a single continuous statement or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders equity. ASU 2011-05 does not change the items which must be reported in other comprehensive income, how such items are measured or when they must be reclassified to net income. Additionally, ASU 2011-05 does not affect the calculation or reporting of earnings per share. On January 1, 2012, the Company adopted this ASU and elected to present the two-statement option. Other than the change in presentation, the adoption of this ASU had no impact on the Company s financial position or results of operations.

3. Net Income Available to Common Stockholders

Upon the Company s initial public offering in May 2011, all shares of the Company s redeemable convertible preferred stock were converted to common stock. Basic and diluted net income per share available to common stockholders are presented in conformity with the two-class method required for participating securities. Holders of shares of Series A, Series A-1, Series B and Series C redeemable convertible preferred stock were each entitled to receive 8% per annum non-cumulative dividends, payable prior and in preference to any dividends on common stock. In addition, the holders of restricted common stock are entitled to receive non-forfeitable dividends if declared.

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Notes to Consolidated Financial Statements (Continued)

(unaudited)

Under the two-class method, basic net income per share attributable to common stockholders is computed by dividing the net income attributable to common stockholders by the weighted-average number of shares of common stock outstanding during the period. Net income attributable to common stockholders is determined by allocating undistributed earnings, calculated as net income less current period shares of Series A, Series A-1, Series B and Series C redeemable convertible preferred stock non-cumulative dividends, among common stockholders, restricted stockholders and Series A, Series A-1, Series B and Series C redeemable convertible preferred stockholders. Diluted net income per share attributable to common stockholders is computed by using the weighted-average number of shares of common stock outstanding, including potential dilutive shares of common stock, assuming the dilutive effect of outstanding stock options using the treasury stock method.

The following table presents the calculation of basic and diluted net income per share available to common stockholders:

	Three Months Ended March 31, 2012	2011
Net income available to common stockholders:		
Numerator:		
Basic:		
Net income	$ 8,081	$ 6,695
Allocation of net income to participating stockholders	(241)	(5,649)
Net income available to common stockholders basic	$ 7,840	$ 1,046
Diluted:		
Net income available to common stockholders basic	$ 7,840	$ 1,046
Undistributed earnings re-allocated to common stockholders	13	203
Net income available to common stockholders diluted	$ 7,853	$ 1,249
Denominator:		
Basic shares:		
Weighted-average shares used in computing basic net income available to common stockholders	48,308	7,221
Diluted shares:		
Weighted-average shares used in computing basic net income available to common stockholders	48,308	7,221
Dilutive effect of options using treasury-stock method	2,918	1,815
Weighted-average shares used in computing diluted net income available to common stockholders	51,226	9,036
Net income per share:		
Basic	$ 0.16	$ 0.14
Diluted	$ 0.15	$ 0.14

For the three months ended March 31, 2012 and 2011, the following securities were not included in the calculation of diluted shares outstanding, as the effect would have been anti-dilutive (in thousands):

	Three Months Ended March 31,	
	2012	2011
Weighted-average:		
Shares of redeemable convertible preferred stock		26,230
Shares of common stock subject to repurchase	1,483	3,980
Stock options outstanding	1,377	
Restricted stock units outstanding	99	

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RPX Corporation

Notes to Consolidated Financial Statements (Continued)

(unaudited)

4. Fair Value Measurements

The following tables present the financial assets measured at fair value on a recurring basis as of March 31, 2012 and December 31, 2011 (in thousands):

	March 31, 2012		
	Fair Value	Level 1	Level 2
Cash equivalents			
Money market funds	$ 77	$ 77	$
Commercial paper	17,999		17,999
Municipal bonds	6,935		6,935
Corporate bonds	7,874		7,874
	$ 32,885	$ 77	$ 32,808
Short-term investments			
Commercial paper	$ 4,492	$	$ 4,492
Municipal bonds	109,091		109,091
Corporate bonds	6,858		6,858
U.S. government and agency securities	30,094		30,094
	$ 150,535	$	$ 150,535

	December 31, 2011		
	Fair Value	Level 1	Level 2
Cash equivalents			
Money market funds	$ 21,504	$ 21,504	$
Commercial paper	24,405		24,405
Municipal bonds	8,385		8,385
Corporate bonds	2,045		2,045
	$ 56,339	$ 21,504	$ 34,835
Short-term investments			
Commercial paper	$ 4,850	$	$ 4,850
Municipal bonds	65,675		65,675
Corporate bonds	6,828		6,828
U.S. government and agency securities	49,623		49,623
	$ 126,976	$	$ 126,976

As of March 31, 2012 and December 31, 2011, the Company did not use level 3 inputs to measure financial assets or liabilities at fair value.

5. Short-term Investments

The following table summarizes the Company s investments in available-for-sale securities (in thousands):

	March 31, 2012			
		Unrealized		
	Amortized Cost	Gains	Losses	Estimated Fair Value
Commercial paper	$ 4,492	$	$	$ 4,492
Municipal bonds	109,112	6	(27)	109,091
Corporate bonds	6,849	10	(1)	6,858
U.S. government and agency securities	30,089	5		30,094
	$ 150,542	$ 21	$ (28)	$ 150,535

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Notes to Consolidated Financial Statements (Continued)

(unaudited)

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 income (loss). Realized gains and losses on available-for-sale securities are included in interest and other expense, net in the Company s consolidated statements of operations.

The weighted-average remaining maturity of the Company s investment portfolio was less than one year as of March 31, 2012 and December 31, 2011. As of March 31, 2012, no individual securities incurred continuous unrealized losses for greater than 12 months.

6. Patent Assets, Net

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

	March 31, 2012	December 31, 2011
Patent assets, gross	$ 300,885	$ 287,555
Less: Accumulated amortization	(141,838)	(124,203)
Total patent assets, net	$ 159,047	$ 163,352

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 portfolio of patent assets on a straight-line basis over its estimated economic useful life. As of March 31, 2012 and December 31, 2011, the estimated economic useful lives of the Company s patent assets generally ranged from 24 to 60 months. As of March 31, 2012, the weighted-average original estimated economic useful life was 50 months.

The following table summarizes the expected future annual amortization expense of patent assets as of March 31, 2012 (in thousands):

2012 (remainder)	$ 49,087
2013	52,582
2014	29,872
2015	17,930
2016	9,190
Thereafter	386
Total estimated future amortization expense	$ 159,047

Amortization expense was approximately $17.7 million and $13.5 million for the three months ended March 31, 2012 and 2011, respectively.

7. Property and Equipment, Net

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

	March 31, 2012	December 31, 2011
Computer, equipment and software	$ 745	$ 666
Internal-use software	2,142	1,221
Furniture and fixtures	659	611
Leasehold improvements	162	139
Work-in-progress	130	178
Total property and equipment, gross	3,838	2,815
Less: Accumulated depreciation and amortization	(700)	(498)
Total property and equipment, net	$ 3,138	$ 2,317

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Notes to Consolidated Financial Statements (Continued)

(unaudited)

Depreciation and amortization expense was approximately $0.2 million and $0.1 million for the three months ended March 31, 2012 and 2011, respectively. Stock-based compensation for the three months ended March 31, 2012 and 2011 of $0.1 million and $11,000, respectively, was capitalized as part of the cost of internal-use software.

8. Goodwill and Intangible Assets, Net

Goodwill

Goodwill as of March 31, 2012 and December 2011 totaled $1.7 million.

Intangible Assets, Net

Intangible assets, net, as of March 31, 2012 and December 31, 2011 consisted of (in thousands):

	Weighted-Average	March 31, 2012			December 31, 2011		
	Lives (Months)	Carrying Amount	Accumulated Amortization	Net Carrying Amount	Carrying Amount	Accumulated Amortization	Net Carrying Amount
Developed technology	37	$ 728	$ (193)	$ 535	$ 665	$ (128)	$ 537
Customer relationship	36	250	(69)	181	250	(49)	201
Non-compete	24	80	(32)	48	80	(22)	58
Trademarks	36	890	(240)	650	890	(165)	725
Other intangible assets	48	1,450	(1,319)	131	1,450	(1,229)	221
Intangible assets in progress	N/A	64		64	95		95
		$ 3,462	$ (1,853)	$ 1,609	$ 3,430	$ (1,593)	$ 1,837

The estimated future amortization expenses for intangible assets (excluding intangible assets in-progress) are summarized below (in thousands):

2012 (remainder)	$ 633
2013	643
2014	269
Total estimated future amortization expense	$ 1,545

Amortization expense for the three months ended March 31, 2012 and 2011 was $0.3 million and $0.1 million, respectively.

9. Accrued and Other Current Liabilities

Accrued and other current liabilities consisted of the following (in thousands):

	March 31, 2012	December 31, 2011
Accrued payroll-related expenses	$ 2,611	$ 7,160
Other	2,940	2,784
Total accrued and other current liabilities	$ 5,551	$ 9,944

10. Deferred Payment Obligations

On July 6, 2009, the Company entered into an agreement to purchase certain patent assets for a total of $4.4 million. Under the terms of the agreements, the Company paid $1.1 million in cash at signing, with a remaining non-interest bearing contract obligation of $3.3 million due in three equal installments in July of each of 2010, 2011 and 2012. The contract obligation was recorded at fair value utilizing the imputed interest rate method. Interest was imputed using a rate of 10.2% per annum, which represents the Company s estimated market borrowing rate as of the initial transaction date. As of March 31, 2012 and December 31, 2011, the remaining unpaid principal balance associated with the obligation was $1.1 million.

On January 26, 2009, the Company entered into an agreement to acquire certain patent assets for a total of $12.0 million. Under the terms of the agreement, the Company paid $3.0 million upfront, with a remaining non-interest bearing contract obligation of $9.0 million due in three equal installments in January 2010, 2011 and 2012. The contract obligation was recorded at fair value utilizing the imputed interest rate method. Interest was imputed using a rate of 13.9% per annum, which represented the Company s estimated market borrowing rate as of the date of the transaction. As of March 31, 2012 and December 31, 2011, the remaining unpaid principal balance associated with the obligation was nil and $3.0 million, respectively.

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11. Lines of Credit

On March 28, 2012, the Company entered into a standby letter of credit agreement with a banking institution. As of March 31, 2012, the credit facility provided for a $1.8 million line of credit in support of a corporate real estate lease. Amounts borrowed under the letter of credit will be charged a variable interest rate, but at least 4% per year. As of March 31, 2012, there was no outstanding balance.

On February 2, 2012, the Company amended its line of credit agreement with a banking institution. The amendment increased the Company s credit facility from $0.3 million to $0.5 million for a Company-sponsored travel and expense credit card program. Amounts borrowed will be charged a fixed rate of interest of 5% per year. The credit was secured by a priority interest in the Company s savings account at the banking institution in the amount of $0.3 million, this amount was released upon execution of the amended line of credit. There was no outstanding balance under the revolving line of credit as of March 31, 2012 or December 31, 2011.

On August 5, 2010, the Company entered into a standby letter of credit agreement with a banking institution. As of December 31, 2011, the credit facility provided for a $0.1 million line of credit in support of a corporate real estate lease. The credit facility, which expires on June 14, 2013, is secured by a priority interest in the Company s savings account held with the banking institution in the amount of $0.1 million. The balance in this account has been classified as non-current restricted cash on the accompanying consolidated balance sheets.

12. Commitments and Contingencies

Operating Lease Commitments

The Company leases its facilities under non-cancelable lease agreements. Operating lease obligations have increased from those as of December 31, 2011, as a result of the following agreement entered into during the three months ended March 31, 2012.

In March 2012, the Company entered into an amended lease agreement to increase its San Francisco, California office space to approximately 67,000 total square feet from May 2013 through October 2019. The monthly base rent payments pursuant to this lease will initially be approximately $0.3 million per month, increasing to approximately $0.4 million per month. Total future non-cancelable minimum lease payments will be $26.1 million.

Rent expense related to these non-cancelable operating leases was $0.6 million and $0.4 million for the three months ended March 31, 2012 and 2011, respectively.

Other Commitments

In March 2012, the Company entered into a commitment to purchase certain patent assets for total cash consideration of $6.0 million. The purchase commitment is contingent upon several closing conditions which must occur on or before May 30, 2012, and as such, no amount has been recorded in the consolidated balance sheet at March 31, 2012.

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 had been recorded as of March 31, 2012 or December 31, 2011.

In March 2012, Cascades Computer Innovations LLC filed a lawsuit in U.S. District Court for the Northern District of California 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 claims 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. Because the case is at a very early stage, 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 range of the potential loss that may result from this litigation.

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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. Accordingly, the Company had no liabilities recorded for these agreements as of March 31, 2012 or December 31, 2011. 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.

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 limits, while the officer or employee is or was serving at its request in such capacity. 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.

13. Stockholders Equity
Common Stock

As of March 31, 2012, under the Company s amended and restated certificate of incorporation the Company is authorized to issue 10 million shares of preferred stock with a par value of $0.0001 per share and 200 million shares of common stock with par value of $0.0001 per share.

In connection with the issuance of the Series A redeemable convertible preferred stock in August 2008, the Company entered into a common stock repurchase agreement with its founders. The Company issued 9,999,998 shares of common stock to the Company s founders in exchange for the assignment of intellectual property to the Company. The Company has the right to repurchase these shares of common stock upon the termination of a founder s service to the Company. The repurchase rights lapse over a four-year period, 25% on the first anniversary from the issuance date and thereafter ratably each month over the ensuing 36-month period. As of March 31, 2012 and December 31, 2011, 1,041,666 and 1,666,666, respectively, of these shares were subject to repurchase. The value of common stock exchanged for the intellectual property was estimated to be $1.5 million based on the then-applicable common stock value of $0.145 per share. The assets received are recorded as intangible assets in the consolidated balance sheets and are being amortized over a four-year period.

Preferred Stock

As of March 31, 2012, under the Company s amended and restated certificate of incorporation the Company is authorized to issue 10 million shares of preferred stock with a par value of $0.0001 per share. The board of directors is authorized to provide for the issuance of one or more series of preferred stock and to establish the powers, preferences and rights of the preferred shares.

Upon the Company s initial public offering in May 2011, all shares of the Company s redeemable convertible preferred stock automatically converted into 26,229,722 shares of common stock. As of March 31, 2012, the Company had no redeemable convertible preferred shares outstanding.

Equity Plans

In February 2011, the Company s Board of Directors adopted the 2011 Equity Incentive Plan (the 2011 Plan), which became effective on the date of the Company s initial public offering. The 2011 Plan provides for the issuance of incentive stock options, non-qualified stock options, stock appreciation rights, restricted shares of the Company s common stock, and stock units to employees, directors and consultants. The Board of Directors reserved 1,500,000 shares of common stock for future issuance under the 2011 Plan. In March 2012, the Company reserved an additional 2,457,269 shares of common stock for future issuance under the 2011 Plan.

In August 2008, the Company s Board of Directors adopted the 2008 Stock Option Plan, as amended (the 2008 Plan), which provides for the issuance of incentive stock options, non-qualified stock options, as well as the direct award or sale of shares of common stock to employees, directors and consultants for up to 9,019,474 shares of common stock. While no further awards are being made under the 2008 Plan, all awards outstanding under the 2008 Plan continue to be governed by the terms of the original award.

Under both the 2008 Plan and 2011 Plan, incentive stock options and non-qualified stock options are granted at a price not less than 100% of the fair value of the stock at the date of grant. Incentive stock options granted to stockholders who own more than 10% of the outstanding stock of the Company at the time of grant must be issued at an exercise price not less than 110% of the fair value of the stock on the date of grant. Options granted to newly hired employees vest 25% on the first anniversary of the date of hire and ratably each month over the ensuing 36 month period. Options granted to existing employees generally vest ratably over the 48 months following the date of grant. Options are exercisable for a maximum period of ten years after the date of grant. Restricted stock units granted to newly hired employees vest 25% on the first Company established vest date after their first anniversary of the date of hire and ratably each quarter over the ensuing 36 month period. Restricted stock units granted to existing employees generally vest ratably each quarter over the 48 months following the date of grant.

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Notes to Consolidated Financial Statements (Continued)

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A summary of the Company s activity under the 2008 Plan 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, 2011	1,004	7,503	$ 6.82		
Options authorized	2,457				
Options granted	(543)	543	16.21		
Options exercised		(942)	1.83		
Options canceled	19	(19)	14.41		
Restricted stock units granted	(345)				
Restricted stock units forfeited	8				
Balance March 31, 2012	2,600	7,085	8.18	8.5	$ 66,200
Vested and exercisable March 31, 2012		1,313	5.01	7.9	16,383
Vested and expected to vest March 31, 2012		6,188	8.01	8.5	59,005

The weighted-average grant date fair value of options granted during the three months ended March 31, 2012 and 2011 was $9.08 and $5.81 per share, respectively. The total intrinsic value of options exercised during the three months ended March 31, 2012 and 2011 was $14.3 million and $2.5 million, respectively.

Restricted Stock Units

The summary of restricted stock units (RSUs) activity is as follows:

	Number of Shares	Weighted-Average Grant Date Fair Value	Aggregate Intrinsic Value
Non-vested units December 31, 2011	179	$ 25.15	
Granted	345	16.22	
Vested	(3)	22.24	
Forfeited	(8)	15.25	
Non-vested units March 31, 2012	513	19.32	$ 9,911

Stock-Based Compensation Related to Employees and Non-Employee Directors

The Company estimates the fair value of stock options using the Black-Scholes option pricing model. Option valuation models, including the Black-Scholes option pricing model, require the input of various assumptions, including stock price volatility. Changes in the assumptions can materially affect the fair value and ultimately how much stock-based compensation expense is recognized. The weighted-average assumptions and resulting fair values were as follows:

	Three Months Ended March 31,	
	2012	**2011**
Dividend yield	%	%
Risk-free rate	1.15%	2.67%
Expected volatility	61%	59%
Expected term in years	6.0	6.7

For RSUs, stock-based compensation expense was calculated based on the Company s stock price on the date of grant, multiplied by the number of units granted. The grant date fair value of RSUs, less estimated forfeitures, is recognized on a straight-line basis over the requisite service period.

Employees and directors stock-based compensation expense related to stock options for the three months ended March 31, 2012 and 2011, was $1.9 million and $0.8 million, respectively, and stock-based compensation expense related to restricted stock units for the three months ended March 31, 2012 and 2011, was $0.4 million and nil, respectively.

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Stock-based compensation expense is recognized ratably over the requisite service period. As of March 31, 2012, there was $27.5 million of unrecognized compensation cost related to stock options which was expected to be recognized over a weighted-average period of 3.3 years. As of March 31, 2012, there was $8.4 million of unrecognized compensation cost related to RSUs which was expected to be recognized over a remaining weighted-average period of 3.4 years. Future option grants will increase the amount of stock-based compensation expense to be recorded.

Stock-Based Compensation Related to Non-Employees

The Company periodically grants equity awards to non-employees in exchange for goods and services. No awards were granted to non-employees in exchange for goods and services during the three months ended March 31, 2012. During the three months ended March 31, 2011, the Company issued 10,000 shares of common stock and options to purchase 5,000 shares of common stock to non-employees in exchange for services.

Non-employee stock-based compensation expense related to stock options for the three months ended March 31, 2012 and 2011, was $0.2 million and $0.3 million, respectively, and stock-based compensation expense related to restricted stock units for the three months ended March 31, 2012 and 2011, was $0.2 million and nil, respectively. The Company accounts for non-employee stock options on a fair value basis using the Black-Scholes option pricing model. The fair value of non-employee options is recognized ratably over the requisite service period of the underlying award. Each reporting period the fair value of the unvested non-employee options is revalued and amortized over the remaining requisite service period.

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 discreet benefit items, was 37% for the three months ended March 31, 2012 compared to 45% for the three months ended March 31, 2011. The decrease in our effective tax rate was primarily attributable to the use of a single sales factor for California state income tax apportionment. The difference between the consolidated effective income tax rate and the U.S. federal statutory rate is primarily attributable to the effect of certain permanent differences and state income taxes.

During the three months ended March 31, 2012, the Internal Revenue Service (IRS) completed its examination of the Company s employment taxes for the 2010 and 2009 tax years and federal income tax returns for the 2009 and 2008 tax years. In addition, during the fourth quarter of 2011, the IRS issued a Notice of Proposed Adjustments (NOPA) for the 2008 and 2009 tax years with proposed adjustments and no assessment. The Company has agreed to the adjustments which have been approved by the IRS. The adjustments did not have a material impact on the Company s consolidated financial statements. The Company s 2009 and 2008 tax years are currently under examination by the State of California Franchise Tax Board. The Company does not expect a material impact on its consolidated financial statements as a result of this examination. The tax periods open to examination by federal and most state tax authorities includes 2008 through 2011. For the Company s foreign jurisdictions, the 2009 through 2011 tax years remain open to examination by their respective tax authorities.

15. Related-Party Transactions

During the three months ended March 31, 2012 and 2011, one member of the Company s board of directors also served on the board of directors of one of RPX s clients. For the three months ended March 31, 2012 and 2011, the Company recognized subscription fee revenue of $0.7 million related to this client. As of March 31, 2012 and December 31, 2011, there were no receivables due from this client.

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. The Company s Chief Executive Officer reviews financial information presented on a consolidated basis and, as a result, the Company concluded that there is only one operating and reportable segment.

The Company markets its solution to companies around the world. Revenue is generally attributed to geographic areas based on the country in which the client is domiciled.

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Notes to Consolidated Financial Statements (Continued)

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The following table presents revenue by location and revenue generated by country as a percentage of total revenue, for countries representing 10% or more of revenues for the periods presented below (dollars in thousands):

	Three Months Ended March 31,			
	2012		2011	
United States	$ 24,484	56%	$ 20,972	61%
Japan	9,609	22	5,536	16
Other	9,756	22	7,882	23
Total revenue	$ 43,849	100%	$ 34,390	100%

Long-lived assets information by location is presented below (in thousands):

	March 31, 2012	December 31, 2011
United States	$ 165,426	$ 169,132
Japan	43	49
Total long-lived assets	$ 165,469	$ 169,181

17. Subsequent Events

On March 30, 2012, the Company entered into a number of agreements with Digitude Innovations, LLC, Preservation Technologies LLC, and Robert and Susan Kramer. The agreements were subject to closing conditions that were satisfied on April 19, 2012. Pursuant to these agreements, the Company paid $45.8 million and acquired among other things (i) certain patents and patent rights and (ii) all of the issued and outstanding membership interests in Altitude Capital Management LLC. This acquisition will add more than 550 patent assets to the Company s portfolio and enhance its market intelligence. The transaction is expected to be accounted in accordance with ASC 805, *Business Combinations* (ASC 805).

When recording a business combination, the Company allocates the purchase price to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values. This requires the Company to make significant estimates and assumptions. At the time these financial statements were signed and authorized for issue, the initial accounting for the Digitude Innovations business combination was incomplete. As such, disclosures have not been made relating to: the amounts recognized as of the acquisition date for each major class of assets acquired and liabilities assumed; the total amount of goodwill and the amount of goodwill that is expected to be deductible for tax purposes; and amounts assigned to each class of intangible asset and its respective weighted average amortization period.

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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 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 on March 26, 2012.

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 Securities Exchange Act of 1934, as amended (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. These statements are based on the beliefs and assumptions of our management based on information currently available to management. 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 Securities and Exchange Commission on March 26, 2012. 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

RPX helps companies reduce patent-related risk and expense. We provide a subscription-based patent risk management solution that facilitates more efficient exchanges of value between owners and users of patents compared to transactions driven by actual or threatened litigation. As of March 31, 2012, we had a client network of 116 members.

Our business model aligns our interests with those of our clients. We have not asserted and will not assert our patents, which enables us to develop strong and trusted relationships with our clients. Our clients include companies that design, make or sell technology-based products and services as well as companies that use technology in their businesses.

The core of our solution is defensive patent aggregation, in which we acquire patents or licenses to patents, which we refer to collectively as patent assets, that are being or may be asserted against our current and prospective clients. We then provide our clients with licenses to substantially all of these patent assets to protect them from potential patent infringement assertions. We also provide our clients access to our proprietary patent market intelligence and data.

For the three months ended March 31, 2012, revenue grew to $43.8 million as we added 4 net new clients bringing our total client network to 116 companies. We ended the quarter with deferred revenue of $105.8 million.

We believe that the amount that we spend to acquire patent assets is a key driver of the value that we create for our clients. We measure 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 and structured acquisitions above and beyond their subscription fees and the net spend represents only the net incremental investment of our own capital. During the three months ended March 31, 2012, we completed 7 acquisitions of patent assets and our gross and net acquisition spend totaled $13.4 million. Over the trailing four quarters ended March 31, 2012, our gross acquisition spending totaled $97.7 million and our net acquisition spend totaled $93.1 million. From our inception through March 31, 2012, we had completed 97 acquisitions of patent assets with gross acquisition spend of approximately $385.1 million and net acquisition spend of $303.3 million.

In May 2011, we completed our initial public offering, in which we sold and issued 9,065,000 shares of common stock, including 634,565 shares issued pursuant to an over-allotment option granted to the underwriters. The shares were sold by the underwriters at a price of $19.00 per share and we received proceeds of $160.2 million after deducting underwriting discounts and commissions. We incurred offering costs of $2.9 million. In September 2011, we completed a follow-on offering in which we sold and issued 1,400,000 shares of common stock. The shares were sold by the underwriters at a price of $20.49 per share and we received proceeds of $27.4 million after deducting underwriting discounts and commissions. We incurred offering costs of $0.5 million.

Key Components of Results of Operations

Revenue

Historically, substantially all of our revenue has consisted of annual subscription fees. We expect that subscription fee revenue will increase with the growth of our client network. Subscription revenue will be positively or negatively impacted by the financial performance of our clients since their subscription fees are typically reset yearly based upon their most recently reported annual financial results. We have also received revenue from the sale of licenses and fee income in connection with structured acquisitions. In the future, we may receive other revenue and fee income from newly introduced products and services.

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Cost of Revenue

Cost of revenue primarily consists of amortization expenses related to acquired patent assets. Acquired patent assets are capitalized and amortized ratably over the shorter of their estimated useful lives or the remaining statutory life. Also included in the cost of revenue are the expenses incurred to maintain and prosecute patents and patent applications. We expect our cost of revenue to increase in the future as we add additional patent assets to our existing portfolio to support our existing and future clients.

Selling, General and Administrative Expenses

Selling, general and administrative expenses consist of salaries and related expenses, including stock-based compensation expenses, cost of marketing programs, legal costs, professional fees, travel costs, facility costs and other corporate expenses. We expect that in the foreseeable future, as we seek to serve more clients and develop new products and services, selling, general and administrative expenses will increase. Selling, general and administrative expenses will also increase in order to support our operations and compliance requirements as a public company.

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 bases 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. Based on available information, we believe it is more-likely-than-not that our deferred tax assets will be fully realized. Accordingly, we have not applied a valuation allowance against our net deferred tax assets.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with U.S. GAAP. The preparation of these 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 critical accounting policies and estimates as compared to those described in our Annual Report on Form 10-K filed with the SEC on March 26, 2012.

We consider the following to be critical accounting policies and estimates because we believe they are both important to the portrayal of our financial condition and results of operations and require management judgments about matters that are uncertain. If actual results or events differ materially, our reported financial condition and results of operation for future periods could be materially affected.

- Revenue Recognition
- Amortization of Patent Assets
- Accounting for Stock-Based Awards
- Accounting for Income Taxes

Results of Operations

The following table sets forth, for the periods indicated, consolidated statements of operations data (in thousands).

	Three Months Ended March 31,	
	2012	**2011**

Revenue	$ 43,849	$ 34,390
Cost of revenue	18,017	13,665
Selling, general and administrative expenses	13,223	8,110
(Gain) on sale of patent assets, net	(177)	
Operating income	12,786	12,615
Interest income and other	51	26
Interest and other expense, net	(71)	(399)
Income before provision for income taxes	12,766	12,242
Provision for income taxes	4,685	5,547
Net income	$ 8,081	$ 6,695

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The following table sets forth, for the periods indicated, consolidated statements of operations data as a percentage of revenue.

	Three Months Ended March 31,	
	2012	2011
Revenue	100%	100%
Cost of revenue	41	40
Selling, general and administrative expenses	30	24
(Gain) on sale of patent assets, net		
Operating income	29	36
Interest income and other		
Interest and other expense, net		(1)
Income before provision for income taxes	29	35
Provision for income taxes	11	16
Net income	18%	19%

Revenue

Our revenue for the three months ended March 31, 2012 was $43.8 million compared to $34.4 million during the same period a year ago, an increase of $9.5 million, or 28%. The increase was primarily due to the growth in our client network and the resulting recognition of revenue from clients that joined both during the current period and prior to the start of the current period.

We expect our revenue growth to continue if we are successful in our efforts to add new clients and retain existing clients. However, while we expect to continue to experience revenue growth, we do not believe that our rate of growth since inception is representative of anticipated future revenue growth.

Cost of Revenue

Our cost of revenue for the three months ended March 31, 2012 was $18.0 million compared to $13.7 million during the same period a year ago, an increase of $4.4 million, or 32%. The increase was a result of additional amortization expense attributable to the increase in our patent assets. Amortization expense related to our patent assets was $17.7 million and $13.5 million for the three months ended March 31, 2012 and 2011, respectively. The expenses incurred to maintain patents and prosecute patent applications included in our portfolio were approximately $0.2 million and $0.1 million for the three months ended March 31, 2012 and 2011, respectively.

Selling, General and Administrative Expenses

Our selling, general and administrative expenses for the three months ended March 31, 2012 were $13.2 million compared to $8.1 million during the same period a year ago, an increase of $5.1 million or 63%. The increase was primarily due to a $3.5 million increase in personnel-related costs, including stock-based compensation, attributable to increasing our headcount to 125 employees as of March 31, 2012 compared to 73 employees at March 31, 2011, a $0.7 million increase in professional fees due to increased infrastructure costs associated with the growth of our business and costs associated with being a public company and a $0.6 million increase in our facility-related costs, depreciation and other corporate expenses due to the leasing of additional office space, and higher depreciation expenses due to increases in property and equipment balances.

Interest Income

Interest income for the three months ended March 31, 2012 was $0.1 million as compared to $26,000 for the same prior year period, an increase of $25,000, or 96%. The increase was due to interest earned on larger cash balances attributable to our initial public offering and follow-on offering of common stock in 2011.

Interest Expense

Interest expense for the three months ended March 31, 2012 was $0.1 million as compared to $0.4 million for the same prior year period, a decrease of $0.3 million, or 82%. The decrease was primarily due to a reduction in outstanding debt balances.

Provision for Income Taxes

Our effective tax rate for the three months ended March 31, 2012 was 37%, including the impact of discreet benefit items, compared to 45% for the three months ended March 31, 2011. The decrease in our effective tax rate was primarily attributable to the use of a single sales factor for California state income tax apportionment. The difference between the consolidated effective income tax rate and the U.S. federal statutory rate is primarily attributable to the effect of certain permanent differences and state income taxes.

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Liquidity and Capital Resources

As of March 31, 2012, we had $101.6 million of cash and cash equivalents and $150.5 million in short-term investments. In September 2011, we completed a follow-on offering of our common stock, in which we sold and issued 1,400,000 shares of common stock. The shares were sold by the underwriters at a price of $20.49 per share, and we received proceeds of $27.4 million after deducting underwriting discounts and commissions. In connection with this offering, we incurred offering costs of $0.5 million. In May 2011, we completed our initial public offering in which we sold and issued 9,065,000 shares of common stock, including 634,565 shares issued pursuant to an over-allotment option granted to the underwriters. The shares were sold by the underwriters at a price of $19.00 per share and we received proceeds of $160.2 million after deducting underwriting discounts and commissions. We incurred offering costs of $2.9 million. Prior to the initial public offering, substantially all of our operations and patent asset acquisitions had been financed through the private sale of equity securities, subscription fees collected from our clients and patent-seller financing.

On March 30, 2012, we entered into a number of agreements with Digitude Innovations, LLC, Preservation Technologies LLC, and Robert and Susan Kramer. The agreements were subject to closing conditions that were satisfied on April 19, 2012. Pursuant to these agreements, we paid $45.8 million and purchased (i) certain patents and patent rights and (ii) all of the issued and outstanding membership interests in Altitude Capital Management LLC.

We believe our existing cash, cash equivalents, short-term investments and contractual payments due to us from existing clients 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 clients, development of new solutions and performance of general and administrative activities. We anticipate an increased level of patent acquisition spending as our business grows. 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.

As a public company, we incur costs that we had not previously incurred prior to our initial public offering, including, but not limited to, costs and expenses for directors fees, increased directors and officers insurance, investor relations fees, expenses for compliance with the Sarbanes-Oxley Act of 2002 and rules implemented by the SEC and The Nasdaq Global Market, on which our common stock is listed, and various other costs. The Sarbanes-Oxley Act of 2002 requires that we maintain effective disclosure controls and procedures and internal control over financial reporting.

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

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Net cash provided by operating activities	$ 25,990	$ 39,644
Net cash used in investing activities	(34,141)	(34,625)
Net cash provided by (used in) financing activities	2,971	(9,822)
Decrease in cash and cash equivalents	$ (5,180)	$ (4,803)

Cash Flows from Operating Activities

Cash provided by operating activities primarily consists of net income adjusted for certain non-cash items including depreciation, amortization, stock-based compensation and the effect of changes in working capital and other activities. Cash provided by operating activities for the three months ended March 31, 2012 was $26.0 million, consisting of: net income of $8.1 million; adjustments for non-cash items of $17.0 million primarily due to $18.1 million of depreciation and amortization, $2.5 million of stock-based compensation and reduction of $4.5 million due to excess tax benefit from stock-based compensation; and changes in working capital and non-current assets and liabilities totaling $0.9 million primarily from a $9.7 million decrease in accounts receivable, a $5.0 million decrease in accrued liabilities and a $2.5 million decrease in deferred revenue. The decrease in deferred revenue is due to $44.1 million of net revenue and other adjustments recorded during the period and partially offset by revenue billings to new and existing clients of $41.6 million. The amount of deferred revenue in any given period varies with the addition of new clients, the mix of payment terms that we offer and the timing of invoicing existing clients.

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Cash provided by operating activities for the three months ended March 31, 2011 was $39.6 million consisting of net income of $6.7 million, adjustments for non-cash items of $15.0 million and changes in working capital and non-current assets and liabilities totaling $17.9 million. The change in working capital resulted primarily from a decrease in accounts receivable of $11.9 million and an increase in deferred revenue of $10.2 million. The increase in deferred revenue consists of $44.6 million, net of adjustments, billed to our clients offset by revenue recognized of $34.4 million for the three months ended March 31, 2011. The increase in deferred revenue is due to annual subscription billings and the growth in our membership to 81 clients as of March 31, 2011 from 72 clients as of December 31, 2010.

Cash Flows from Investing Activities

Cash used in investing activities primarily consists of acquisitions of patent assets and purchases of short-term marketable securities classified as available-for-sale. Net cash used in investing activities for the three months ended March 31, 2012 was $34.1 million, of which $21.4 million represented net purchases of short-term investments, $12.5 million represented our acquisitions of patent assets and $0.9 million represented acquisitions of property and equipment. We expect our cash used in investing activities to increase in the future as we acquire additional patents.

Cash used by investing activities for the three months ended March 31, 2011 was $34.6 million, of which $19.1 million represented our acquisition of patent assets, net and $15.1 million represented our acquisition of investments.

Cash Flows from Financing Activities

Net cash provided by financing activities for the three months ended March 31, 2012 was $3.0 million. Net cash provided by financing activities during the three months ended March 31, 2012 was due to $4.5 million excess tax benefit from stock-based compensation, $1.7 million proceeds from exercise of stock options and partially offset by $3.3 million of deferred payment obligations.

Cash used by financing activities for the three months ended March 31, 2011 was $9.8 million, primarily from the repayment of our debt obligations.

Contractual Obligations and Commitments

We generally do not enter into long-term minimum purchase commitments. Our principal commitments consist of obligations under leases for office space. Commitments to settle contractual obligations in cash under operating leases and other obligations have not changed significantly from the Commitments and Contingencies table included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011, except for the following agreement entered into during the three months ended March 31, 2012.

In March 2012, we entered into an amended lease agreement to increase our San Francisco, California office space to approximately 67,000 total square feet from May 2013 through October 2019. The monthly base rent payments pursuant to this lease will initially be approximately $0.3 million per month, increasing to approximately $0.4 million per month. Total future non-cancelable minimum lease payments will be $26.1 million.

In March 2012, we entered into a commitment to purchase certain patent assets for total cash consideration of $6.0 million. The purchase commitment is contingent upon several closing conditions which must occur on or before May 30, 2012, and as such, no amount has been recorded in the consolidated balance sheet at March 31, 2012.

Off Balance Sheet Arrangements

There were no substantial changes to our guarantee and indemnification obligations or other off balance sheet arrangements during the three months ended March 31, 2012.

Recent Accounting Pronouncements

In June 2011, the FASB issued ASU 2011-05, *Presentation of Comprehensive Income*, or ASU 2011-05, which requires companies to present the components of net income and other comprehensive income either in a single continuous statement or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders equity. ASU 2011-05 does not change the items which must be reported in other comprehensive income, how such items are measured or when they must be reclassified to net income. Additionally, ASU 2011-05 does not affect the calculation or reporting of earnings per share. On January 1, 2012, we adopted this ASU and elected to present the two-statement option. Other than the change in presentation, the adoption of this ASU had no impact on our financial position or results of operations.

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.

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Foreign Currency Exchange Risk

Our subscription agreements are denominated in U.S. dollars, and therefore, our revenue is not currently subject to significant foreign currency risk. Our expenses are incurred primarily in the United States, with a small portion of expenses incurred and denominated in the currencies where our other international offices are located. Our results of operations and cash flows are therefore subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the Japanese Yen relative to the U.S. Dollar. To date, we have not entered into any foreign currency hedging contracts.

Interest Rate Sensitivity

We had cash, cash equivalents, restricted cash and short-term investments of $252.1 million as of March 31, 2012. Our unrestricted cash balances deposited in U.S. banks are non-interest bearing and insured up to the FDIC limits. Cash equivalents consist of institutional money market funds, U.S. Government and agency securities, municipal bonds and commercial paper denominated primarily in U.S. Dollars. Interest rate fluctuations affect the returns in our invested funds. Unrestricted cash and cash equivalents are held for working capital purposes and restricted cash amounts are held as security against various lease obligations.

As of March 31, 2012, our short-term investments of $150.5 million were primarily invested in U.S. Government and Agency securities, commercial paper and corporate and municipal bonds maturing between 90 days and 12 months. As of March 31, 2012, our investments were classified as available-for-sale and, consequently, were recorded at fair value in the 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 fair value of such assets below its carrying value is other-than-temporary. As of March 31, 2012, we had not recorded an impairment related to our investments in the consolidated statement of operations.

If overall interest rates had changed by 10% during the three months ended March 31, 2012, the fair value of our investments would not have been materially affected.

Effect of Inflation

We believe that inflation has not had a material impact on our consolidated results of operations for the three months ended March 31, 2012. There can be no assurance that future inflation will not have an adverse impact on our consolidated results of operations or financial condition.

Fair Value of Financial Instruments

We do not have material exposure to market risk with respect to investments, as our investments consist primarily of highly liquid investments that approximate their fair values due to their short period of time to maturity. We do not use derivative financial instruments.

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, 2012. 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.

Based on the evaluation of our disclosure controls and procedures as of March 31, 2012, our Chief Executive Officer and Chief Financial Officer have concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Limitations on Controls

Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives as specified above. Our management does not expect, however, that our disclosure controls and procedures will prevent or detect all error and fraud. Any control system, no matter how well designed and operated, is based upon certain assumptions and can provide only reasonable, not absolute, assurance that its objectives will be met. Further, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all of our control issues and instances of fraud, if any, have been detected.

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Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the period covered by this quarterly report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Refer to Note 12 to our consolidated financial statements.

Item 1A. Risk Factors

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 and operating results. When making your investment decision, you should also refer to the other information set forth in this Form 10-Q, including our consolidated financial statements and the related notes, and our Annual Report on Form 10-K filed with the SEC on March 26, 2012.

Risks Related to Our Business and Industry

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

We were incorporated in July 2008. We acquired our first patent assets in September 2008 and sold our first membership in October 2008. Therefore, we have not only a very limited operating history, but also a very limited track record in executing our business model. Our future success depends on acceptance of our solution by companies we target to become clients. Our efforts to sell our solution to new companies may not continue to be successful. In particular, because we are a relatively new company with a limited operating history, companies may have concerns regarding our viability. 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.

We may experience significant quarterly fluctuations in our operating results due to a number of factors, which makes 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 and the timing of those acquisitions may result in significant quarterly fluctuations in our capital expenditures, 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, other factors that may affect our operating results include:

- increases in the prices we need to pay to acquire patent assets;
- increases in operating expenses, including those attributable to additional headcount and the costs of new business initiatives;
- increases in operating expenses attributable to the formation and management of our risk retention group;

non-renewals from existing clients for any reason;

loss of clients, including through acquisitions or consolidations;

changes in our subscription fee rates or the pricing policies of our competitors;

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;

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 solution to our existing and potential clients;

our lengthy and unpredictable membership sales cycle, including delays in potential clients decisions whether to subscribe to our solution;

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;

lower subscription fees from clients where the annual subscription fee decreases due to declining operating income or revenue of such clients;

our inability to effectively develop and implement new solutions that meet client requirements in a timely manner;

decreases in our clients and prospective clients costs of litigating patent infringement claims;

our inability to retain key personnel;

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;

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; 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 solution is immature, and if our solution is not widely accepted or is 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 solution and we expect this will continue for the foreseeable future. As a result, widespread acceptance of this solution is critical to our future success. The market for patent risk management solutions is new and it is uncertain whether these solutions 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 solutions, then wide market adoption of our solution 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 our solution, as well as our ability to obtain new clients and renew existing clients, include:

uncertainty about our ability to significantly reduce patent litigation costs for a particular company;

reduced assertions from 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;
- 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 in perpetual licenses in all patent assets that they believe are materially relevant to their businesses;
- lack of sufficient interest by mid- and small-sized companies in our solution;
- 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.

We have limited experience with respect to our subscription pricing model, and if the prices we charge for memberships are unacceptable to our existing or potential clients, our revenue and operating results could experience volatility or decline.

We have limited experience with respect to determining the appropriate metrics for establishing the annual subscription fees for our patent risk management solution. If the market for our solution fails to develop or develops more slowly than we anticipate, or if competitors introduce new solutions that compete with ours, we may be unable to renew our memberships 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 or reduce our subscription fee rates, which could harm our operating results. If we introduce a higher fee schedule in the future, it may be more difficult for us to attract new clients. In order to attract clients, in certain cases we have previously offered, and may in the future offer, discounts or other contractual incentives to clients who execute multi-year subscription agreements or who make client referrals.

We have very limited flexibility to change the pricing of our solution 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 our subscription agreements, our annual subscription fee is based on a published fee schedule applicable to all of our clients that join our network while that fee schedule is in effect. Clients are able to renew their memberships perpetually under the fee schedule in effect at the time that they joined our network with periodic adjustments by us only based on changes in the Consumer Price Index. This means that any increases to our fee schedule 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.

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 solution, 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. 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.

The success of our business will increasingly depend on clients renewing their subscription agreements, but 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. The weighted-average term of our subscription agreements in effect as of March 31, 2012 was 2.8 years. As our overall membership base grows, we expect our renewal rate 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 may decrease. 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 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 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 solution 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 in all patent assets they believe are materially relevant to their businesses.

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Our subscription agreements generally provide our clients with a right to terminate their membership if we fail to meet certain conditions. If we fail to meet those conditions and clients elect to terminate their subscription agreements, our operating results will be harmed.

Until recently, our form of subscription agreement provided that we will use commercially reasonable efforts to spend at least a specified minimum amount each year to acquire patent assets related broadly to information technology. If we fail to meet this standard, the clients whose agreements contain this provision have the right to terminate their memberships. If we fail to meet these provisions and clients elect to terminate their memberships, our operating results will be harmed.

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 solution 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.

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.

Each client s subscription fee is reset yearly based on its 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 fee schedule experiences reduced operating results, its subscription fee for the next year will decline. As a result, our revenue stream is affected by conditions outside of our control that impact the operating results of our clients.

Our fee schedule is capped for each of our clients. As a result, if one of our clients acquires another client, our future revenue would be reduced as a result of our fee schedule being applied to the combined entity rather than to each entity separately. Any reduction in subscription fees could harm our business and operating results.

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

If Congress, the United States 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 solution to our current and potential clients. For example, limitations on the ability to bring patent enforcement claims, limitations on the number of defendants that can be joined in a single patent litigation action, 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 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 solution or renew their memberships. Furthermore, even if companies are interested in subscribing to our solution 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 to our business and operating results.

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.

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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 renewing existing clients, and our operating results will be harmed. Similarly, if clients are not satisfied with the amount 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 may not be able to compete effectively against others to attract new clients or acquire patent assets. 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 solution and the value and cost savings it may provide.

In addition to competing for new clients, we also compete to acquire patent assets. Our primary competitors in the market for patent assets include other entities that seek to accumulate patent assets, including NPEs such as Acacia Research, Coller IP, Intellectual Ventures, Millennium Partners and Rembrandt IP Management, along with patent-buying consortiums such as Allied Security Trust. Many of our current or potential competitors have longer operating histories, greater name recognition 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.

We expect to face more direct competition in the future from other established and emerging companies. In addition, as a relatively new company in the patent risk management market, we have limited insight into trends that may develop and affect our business. 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 vary widely in size and in the scope and breadth of the products and services they offer. Many of our competitors have greater financial resources and a larger customer 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.

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

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 incur significant operating expenses during the negotiations even where 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 with 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 structured acquisitions are complex and can be large and high profile. We may incur significant costs to organize and negotiate a structured 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.

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Our business model is new and complex, requiring 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 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 have 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.

We plan to substantially increase our operating expenses to expand our operations, and those increased expenses may negatively impact our profitability.

We expect to significantly increase future expenditures to develop and expand our business, including making substantial expenditures to acquire patent assets and develop new solutions. To further one of those new solutions, we formed a risk retention group which will issue insurance policies to cover the costs of NPE patent claims. Developing and offering this new solution may cause us to incur substantial additional operating expenses. Our efforts to develop this and other new solutions will result in an increase in our operating expenses with no assurance that such solutions will result in additional revenue that is sufficient to offset the additional expenses we incur.

We also plan to incur additional operating expenses as we hire new personnel, including employees for client relations, patent research and analysis, development of reporting systems and general and administrative functions. From January 1 through March 31, 2012, our headcount grew from 110 to 125 employees. Because we intend to continue to hire aggressively, we expect our operating expenses to increase substantially. In addition, as a public company, we incur significant legal, accounting and other expenses that we did not incur as a private company. If we are not successful in generating additional revenue that is sufficient to offset these operating expense increases, our operating results may be harmed.

If we are unable to successfully expand our membership base to include mid- and small-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, so in order for us to continue our growth, we need to expand our membership base to include mid- and small-size companies. There is no guarantee that we will be successful in those efforts. Those companies often have more limited budgets available for solutions of the type we offer compared to larger companies. Those companies may also request solutions that we do not currently offer. 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 more mid- and small-size companies, our growth may slow, 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 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, 2012, our 10 highest revenue generating clients accounted for approximately 29% 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 renew its membership, or if our subscription fees from a client decline, our revenue may correspondingly decrease and our operating results may be adversely affected.

If we are unable to enhance our current solution or to develop or acquire new solutions 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 solution and introduce new solutions 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 service offerings, enhance our technical capabilities or otherwise offer growth opportunities. We have established a risk retention group to offer insurance to our clients to help manage their exposure to patent infringement claims brought by NPEs. We are also currently developing programs to facilitate joint defense agreements and cross-licensing arrangements among clients that pay us additional fees to participate in those arrangements.

The development and implementation of new solutions 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 solutions may not be introduced in a timely manner or at all. If we do introduce these or any other solutions, we may be unable to implement such solutions in a cost-effective manner, achieve wide market acceptance, meet client expectations or generate revenue sufficient to recoup the cost of developing such solutions. Any new solutions we introduce may expose us to additional laws, regulations and risks. If we are unable to develop these or other solutions successfully and enhance our existing solution to meet client requirements or expectations, we may not be able to attract or retain clients, and our business may be harmed.

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We are investing significant management time and resources into developing products designed to provide insurance against NPE patent claims. We do not have prior experience in designing or providing insurance products. If we are not successful in launching and selling 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 a significant amount of management time and financial resources in the development of products designed to provide insurance against NPE patent claims. We have provided capital to develop and initially operate this business. We do not have prior experience in designing insurance products, forming or operating an insurance business, attracting policyholders or establishing the pricing or terms of insurance policies. We cannot assure you that our patent insurance products will appeal to a significant number of our existing clients or attract new clients. If we are unsuccessful in implementing 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.

Following the launch of insurance products for NPE patent 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.

We now offer insurance products for NPE 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 risk and setting premiums. There are many estimates and forecasts involved in predicting underwriting risk and setting premiums, many of which are subject to substantial uncertainty. If we do not estimate our underwriting 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. 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 have experienced rapid growth in recent periods, and we plan to continue to grow our operations to support our current solution and the development of new solutions. If we fail to manage our growth effectively, we may be unable to execute our business plan, maintain high levels of service or address competitive challenges adequately.

We have substantially expanded our overall business, headcount and operations in recent periods. We plan to expand our operations and headcount in the future in order to support our efforts to increase our membership base, continue to acquire valuable patent assets and develop additional solutions. Further, increases in our membership base could challenge our ability to provide satisfactory service and support to our clients. In addition, we will be required to continue to improve our operational, financial and management controls and our reporting procedures. As a result, we may be unable to manage our business effectively in the future, which may negatively impact our 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.

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. For example, on March 7, 2012, a complaint was filed against the Company and some of its clients (the Defendants). The complaint alleges that the Defendants violated federal antitrust law, California antitrust law and California unfair competition law. The plaintiff seeks unspecified monetary damages and injunctive relief. Because the case is at a very early stage, the Company is not currently able to determine whether there is a reasonable possibility that a loss will be incurred nor can it estimate the range of the potential loss that may result from this litigation. We may incur significant costs in defending this claim and the result may not be favorable. An unfavorable outcome of this 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 and operating results.

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

Because of our limited operating history and 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 solution 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 in the future. 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 spend 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 spend 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.

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 solutions or enhance our existing solution, 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.

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 solution 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.

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. We do not maintain key person life insurance policies on any of our employees. The loss of one or more of our key employees could seriously harm our business.

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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 grow our revenue is dependent on our ability to hire personnel that can identify and acquire valuable patent assets and sign up 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.

Weak global economic conditions may adversely affect demand for our solution 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 experienced weak economic conditions. 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 solution. 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.

We may acquire 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 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 client offerings, enhance our technical capabilities or otherwise offer growth opportunities. 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. We may not be able to integrate the acquired personnel, operations and technologies successfully or effectively manage the combined business following the completion of the acquisition.

We may also not achieve the anticipated benefits from a business acquisition due to a number of factors, including:

- difficulties in integrating operations, technologies, services and personnel;
- 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, cash management and financial reporting;

- 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.

We have incurred significant increased costs as a result of operating as a public company, and our management will be required to devote substantial time to compliance efforts.

As a public company, we have incurred significant legal, accounting, investor relations and other expenses that we did not incur as a private company, including costs associated with public company reporting requirements. The Sarbanes-Oxley Act and the Dodd-Frank Wall Street Reform and Consumer Protection Act, as well as rules subsequently implemented by the SEC and The Nasdaq Stock Market, impose additional requirements on public companies, including enhanced corporate governance practices. For example, the listing requirements for The Nasdaq Stock Market provide that listed companies must satisfy, among other things, certain corporate governance requirements relating to independent directors, audit committees, distribution of annual and interim reports, stockholder meetings, stockholder approvals, solicitation of proxies, conflicts of interest, stockholder voting rights and codes of business conduct. Our management and other personnel devote a substantial amount of time to satisfying these requirements. Moreover, these rules and regulations have increased our legal and financial compliance costs and have made some activities more time consuming and costly.

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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 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 of December 31, 2012, as required by Section 404 of the Sarbanes-Oxley Act. Our testing, or the subsequent testing by our independent registered public accounting firm, may reveal deficiencies in our internal control over financial reporting that are deemed to be material weaknesses. Our compliance with Section 404 will require that we incur substantial accounting expense and expend significant management time on compliance-related issues. We need to hire additional accounting and financial staff, improve our existing controls and implement new processes. We cannot be certain that our actions to improve our internal controls over financial reporting will be sufficient, or that we will be able to implement our planned processes and procedures in a timely manner. Moreover, if we are not able to comply with the requirements of Section 404 in a timely manner, or if we or our independent registered public accounting firm identify deficiencies in our internal control over financial reporting that are deemed to be material weaknesses, investors could lose confidence in the reliability of our financial statements, which could cause the market price of our common stock to decline. In addition, a delay in compliance with Section 404 could subject us to sanctions or investigations by The Nasdaq Stock Market, the SEC or other regulatory authorities, make us ineligible for short form registrations or result in the inability of registered broker-dealers to make a market in our common stock, any of which could further reduce our stock price and could harm our business.

Furthermore, implementing any appropriate changes to our internal control over financial reporting may entail substantial costs in order to modify our existing accounting systems, may take a significant period of time to complete and may distract our officers, directors and employees from the operation of our business. These changes, however, may not be effective in maintaining the adequacy of our internal control over financial reporting, and any failure to maintain that adequacy, or consequent inability to produce accurate financial statements on a timely basis, could increase our operating costs and could materially impair our ability to operate our business. In addition, investors perceptions that our internal control over financial reporting is inadequate or that we are unable to produce accurate financial statements may adversely affect our stock price. 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.

Changes in financial accounting standards or practices may cause adverse, unexpected financial reporting fluctuations and may have an effect on our reported results of operations.

A change in accounting standards or practices could have a significant effect on our reported results and may affect our reporting of transactions completed before the change is effective. New accounting pronouncements and varying interpretations of accounting pronouncements have occurred and may occur in the future. Changes to existing rules or the questioning of current practices may adversely affect our reported financial results or the way we conduct our business.

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.

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.

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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 $11.97 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 Quarterly Report on Form 10-Q and others such as:

- variations in our financial condition and operating results;
- 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;
- addition or loss of significant clients;
- recruitment or departure of members of our Board of Directors, management team or other key personnel;
- 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;
- market conditions in our industry and the economy as a whole;
- 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;
- sales of our common stock by us or our stockholders; 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.

Our three largest stockholders and our directors and executive officers, in the aggregate, own approximately 60% of our outstanding common stock and will be able to exercise substantial control over all matters requiring stockholder approval. This concentration of ownership limits your ability to influence corporate matters.

As of March 31, 2012, affiliates of Index Ventures, affiliates of Charles River Ventures and KPCB Holdings, Inc. each beneficially own approximately 14%, 15% and 15%, respectively, of our outstanding common stock, and our directors and executive officers and their affiliates, in the aggregate, beneficially own an additional 16% of our outstanding common stock. As a result, these stockholders will be able to exercise substantial control over all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions, such as a merger or other sale of our company or its assets. This concentration of ownership will limit your ability to influence corporate matters and may have the effect of delaying or preventing a third party from acquiring control over us. In addition, each of Index Ventures, Charles River Ventures and KPCB Holdings, Inc. currently has a representative on our Board of Directors.

If securities analysts do not continue to publish research or publish unfavorable research about our business, our stock price and trading volume could decline.

The trading market for our common stock depends in part on the research and reports that securities analysts publish about us or our business. A limited number of securities analysts currently publish research reports on us. If one or more of the analysts who covers us downgrades our stock or publishes unfavorable research about our business, our stock price would likely decline. If one or more of these analysts ceases coverage of our company or fails to publish reports on us regularly, demand for our stock could decrease, which could cause our stock price and trading volume to decline.

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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 and the venture capital funds affiliated with our current directors, 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.

As of March 31, 2012, some of our existing stockholders have demand and piggyback rights to require us to register with the SEC approximately 29,100,000 shares of our common stock. If we register these shares of common stock, the stockholders would be able to sell those shares freely in the public market.

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 newly public company, our stock price may be 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. Since our initial public offering, 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.

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.

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.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

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Item 6. Exhibits

(a) The following exhibits are filed herewith:

		Incorporated by Reference			
Exhibit Number	Exhibit Title	Form File No.	Exhibit No.	Filing Date	Provided Herewith
3.1	Amended and Restated Certificate of Incorporation of RPX Corporation	S-1	3.2	1/21/11	
3.2	Amended and Restated Bylaws of RPX Corporation	S-1/A	3.4	4/18/11	
31.1	Certification of Chief Executive Officer Pursuant to Rule 13-14(a) of the Securities Exchange Act of 1934 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				X
31.2	Certification of Chief Financial Officer Pursuant to Rule 13-14(a) of the Securities Exchange Act of 1934 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				X
32.1	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
32.2	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 Taxonomy Extension Instance Document				X
101.SCH+	XBRL Taxonomy Extension Schema Document				X
101.CAL+	XBRL Taxonomy Extension Calculation Linkbase Document				X
101.LAB+	XBRL Taxonomy Extension Label Linkbase Document				X
101.PRE+	XBRL Taxonomy Extension Presentation Linkbase Document				X

+ XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

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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 7, 2012	By: /s/ JOHN A. AMSTER John A. Amster Chief Executive Officer and Director
DATE: May 7, 2012	By: /s/ ADAM C. SPIEGEL Adam C. Spiegel Chief Financial Officer and Senior Vice President, Finance

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EXHIBIT INDEX

		Incorporated by Reference				
Exhibit Number	**Exhibit Title**	**Form**	**File No.**	**Exhibit No.**	**Filing Date**	**Provided Herewith**
3.1	Amended and Restated Certificate of Incorporation of RPX Corporation	S-1		3.2	1/21/11	
3.2	Amended and Restated Bylaws of RPX Corporation	S-1/A		3.4	4/18/11	
31.1	Certification of Chief Executive Officer Pursuant to Rule 13-14(a) of the Securities Exchange Act of 1934 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
31.2	Certification of Chief Financial Officer Pursuant to Rule 13-14(a) of the Securities Exchange Act of 1934 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
32.1	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
32.2	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 Taxonomy Extension Instance Document					X
101.SCH+	XBRL Taxonomy Extension Schema Document					X
101.CAL+	XBRL Taxonomy Extension Calculation Linkbase Document					X
101.LAB+	XBRL Taxonomy Extension Label Linkbase Document					X
101.PRE+	XBRL Taxonomy Extension Presentation Linkbase Document					X

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