

RPX Corp
Form 10-Q
November 02, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended September 30, 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

(I.R.S. Employer

Incorporation or Organization)

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 No

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

Indicate by check mark 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 (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

On October 31, 2012, 50,852,548 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

Condensed Consolidated Balance Sheets

(in thousands)

(unaudited)

	September 30, 2012	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	\$83,440	\$106,749
Short-term investments	125,197	126,976
Restricted cash	—	500
Accounts receivable	12,997	16,160
Prepaid expenses and other current assets	6,364	12,124
Deposit	10,000	—
Deferred tax assets	6,048	5,192
Total current assets	244,046	267,701
Patent assets, net	197,321	163,352
Property and equipment, net	3,434	2,317
Intangible assets, net	3,594	1,837
Goodwill	16,460	1,675
Restricted cash, less current portion	—	147
Deferred tax assets, less current portion	8,279	300
Other assets	1,112	665
Total assets	\$474,246	\$437,994
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	1,046	821
Accrued liabilities	5,841	7,762
Deferred revenue	93,722	96,513
Deferred payment obligations	500	5,056
Other current liabilities	2,124	2,182
Total current liabilities	103,233	112,334
Deferred revenue, less current portion	4,965	11,762
Deferred tax liabilities	21,766	14,695
Other liabilities	20	119
Total liabilities	129,984	138,910
Commitments and contingencies (Note 13)		
Common stock	5	5
Additional paid-in capital	275,612	259,315
Retained earnings	68,646	39,787
Accumulated other comprehensive loss	(1	) (23
Total stockholders' equity	344,262	299,084

Total liabilities and stockholders' equity	\$474,246	\$437,994
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The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,		
	2012	2011	2012	2011	
Revenue	\$47,044	\$38,394	\$146,131	\$111,634	
Cost of revenue	21,980	16,459	60,508	44,652	
Selling, general and administrative expenses	13,147	9,069	39,903	28,465	
(Gain) on sale of patent assets, net	—	—	(177) —	
Operating income	11,917	12,866	45,897	38,517	
Other income (expense), net	65	(79) 92	(645)
Income before provision for income taxes	11,982	12,787	45,989	37,872	
Provision for income taxes	4,392	4,935	17,130	15,659	
Net income	\$7,590	\$7,852	\$28,859	\$22,213	
Net income available to common stockholders:					
Basic	\$7,556	\$7,381	\$28,378	\$12,858	
Diluted	\$7,557	\$7,421	\$28,399	\$13,518	
Net income per common share:					
Basic	\$0.15	\$0.17	\$0.57	\$0.48	
Diluted	\$0.14	\$0.15	\$0.55	\$0.43	
Weighted-average shares used in computing net income per common share:					
Basic	50,457	44,473	49,410	27,015	
Diluted	52,127	48,914	51,711	31,125	

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

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Net income	\$7,590	\$7,852	\$28,859	\$22,213
Other comprehensive income, net of tax:				
Unrealized losses on available-for-sale securities:				
Unrealized holding gains (losses) arising during the period	38	10	34	(10)
Less: reclassification adjustment for gains included in net income	(11)	—	(12)	—
Net unrealized gains on available-for-sale securities, net of tax	27	10	22	(10)
Comprehensive income	\$7,617	\$7,862	\$28,881	\$22,203

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

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Condensed Consolidated Statements of Cash Flows

(in thousands)

(unaudited)

	Nine Months Ended September 30,	
	2012	2011
Cash flows from operating activities		
Net income	\$28,859	\$22,213
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	61,208	44,651
Stock-based compensation	7,493	4,849
Excess tax benefit from stock-based compensation	(5,796)	(4,118)
Imputed interest on deferred payment obligations	94	584
Gain on sale of patent assets	(177)	—
Amortization of premium on investments	3,773	404
Deferred taxes	(1,534)	99
Other	(19)	1
Changes in assets and liabilities:		
Accounts receivable	3,163	10,586
Prepaid expenses and other assets	5,874	(4,777)
Deposit	(10,000)	—
Accounts payable	225	256
Accrued and other liabilities	(2,856)	7,543
Deferred revenue	(9,642)	14,974
Net cash provided by operating activities	80,665	97,265
Cash flows from investing activities		
Purchases of investments classified as available-for-sale	(150,227)	(142,825)
Maturities and sale of investments classified as available-for-sale	153,920	15,100
Business acquisition	(45,765)	(3,345)
Decrease in restricted cash	647	73
Purchases of intangible assets	(52)	(95)
Purchases of property and equipment	(1,626)	(913)
Acquisitions of patent assets	(65,056)	(63,815)
Proceeds from sale of patent assets	200	80
Net cash used in investing activities	(107,959)	(195,740)
Cash flows from financing activities		
Repayments of principal on deferred payment obligations	(5,150)	(18,104)
Proceeds from other obligations	500	—
Proceeds from issuance of common stock in initial public offering, net of issuance costs	—	157,478
Proceeds from issuance of common stock in follow-on offering, net of issuance costs	—	27,379
Proceeds from exercise of stock options and other common stock issuances	2,839	2,632
Excess tax benefit from stock-based compensation	5,796	4,118
Net cash provided by financing activities	3,985	173,503
Net increase (decrease) in cash and cash equivalents	(23,309)	75,028
Cash and cash equivalents at beginning of period	106,749	46,656
Cash and cash equivalents at end of period	\$83,440	\$121,684

Non-cash investing and financing activities		
Conversion of redeemable convertible preferred stock to common stock	\$—	\$62,793
Change in patent assets purchased and accrued but not paid	250	6,626
Change in other assets purchased and accrued but not paid	565	—
Intangible assets received in barter transactions	54	120
Costs related to public offerings accrued but not paid	—	497

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

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RPX Corporation

Notes to Condensed Consolidated Financial Statements

(unaudited)

1. Nature of Business

RPX Corporation (also referred to herein as “RPX” or the “Company”) helps companies reduce patent-related risk and expense by providing 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 that are being or may be asserted against the Company’s current or prospective clients. The Company may occasionally enter into agreements to acquire covenants not to sue in order to further mitigate its clients’ litigation risk. The acquired patents, licenses to patents and agreements for covenants not to sue are collectively referred to as “patent assets.” 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 and access to its proprietary patent market intelligence and data. During the three months ended September 30, 2012, the Company also began underwriting patent infringement liability insurance policies. For the three and nine months ended September 30, 2012, the effect of the insurance policies that have been issued has not been material to the Company’s results of operations or financial condition.

2. Basis of Presentation and Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America and with the instructions for Form 10-Q and Regulation S-X for interim financial statements. Accordingly, they do not include all of the information and notes required for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring items, considered necessary for a fair statement of the results of operations for the periods are shown.

The unaudited condensed consolidated financial statements should be read in conjunction with the audited financial statements and accompanying notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2011. Operating results for the three and nine months ended September 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012.

Significant Accounting Policies

With the exception of the paragraph below, which describes the Company’s accounting for business combinations, there have been no material changes to the Company’s significant accounting policies during the nine months ended September 30, 2012, as compared to the significant accounting policies disclosed in Note 2 of the Company’s Consolidated Financial Statements included in the Annual Report on Form 10-K for the year ended December 31, 2011.

The Company applies the provisions of Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 805, Business Combinations (“ASC 805”), in the accounting for its business acquisitions. ASC 805 requires companies to separately recognize goodwill from the assets acquired and liabilities assumed, which are valued at their acquisition date fair values. Goodwill as of the acquisition date represents the excess of the purchase price over the fair values of the assets acquired and the liabilities assumed.

The Company uses significant estimates and assumptions, including fair value estimates, to determine fair value of assets acquired and liabilities assumed and when applicable the related useful lives of the acquired assets, as of the business combination date. When those estimates are provisional, the Company refines them as necessary during the measurement period. The measurement period is the period after the acquisition date, not to exceed one year, in which the Company may gather new information about facts and circumstances that existed as of the acquisition date to adjust the provisional amounts recognized. Measurement period adjustments are applied retrospectively, if material. All other adjustments are recorded to the consolidated statements of operations.

Recently Issued Accounting Standards

In October 2012, the FASB issued Accounting Standards Update (“ASU”) 2012-04, Technical Corrections and Improvements (“ASU 2012-04”), which amends a wide range of topics in the ASC. These amendments include technical corrections and improvements to the ASC and conforming amendments related to fair value measurements. The amendments in ASU 2012-04 will be effective for fiscal periods beginning after December 15, 2012. The adoption of ASU 2012-04 is not expected to have a material impact on the Company’s financial position or results of operations.

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In July 2012, the FASB issued ASU 2012-02, Intangibles - Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment (“ASU 2012-02”), which amends ASU 2011-08, Intangibles - Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment and permits an entity to first assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test in accordance with Subtopic 350-30, Intangibles - Goodwill and Other - General Intangibles Other than Goodwill. The amendments are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted, including for annual and interim impairment tests performed as of a date before July 27, 2012, if a public entity’s financial statements for the most recent annual or interim period have not yet been issued or, for nonpublic entities, have not yet been made available for issuance. The adoption of ASU 2012-02 is not expected to have a material impact on the Company’s financial position or results of operations.

Recently Adopted Accounting Standards

In August 2012, the FASB issued ASU 2012-03, Technical Amendments and Corrections to SEC Sections: Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin (“SAB”) No. 114 (“SAB 114”), Technical Amendments Pursuant to SEC Release No. 33-9250, and Corrections Related to FASB Accounting Standards Update 2010-22 (“SEC Update”) (“ASU 2012-03”), which amends various SEC paragraphs pursuant to the issuance of SAB No. 114. This ASU became effective upon issuance, and the adoption of this ASU had no impact on the Company’s financial position or results of operations.

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 the two-statement presentation 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

Basic and diluted net income per share available to common stockholders are presented in conformity with the two-class method required for participating securities. 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. 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.

Under the two-class method, basic net income per share available to common stockholders is computed by dividing the net income available to common stockholders by the weighted-average number of shares of common stock outstanding during the period. Net income available 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 available 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 and restricted stock units using the treasury stock method.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(in thousands, except per share data)			
Net income available to common stockholders:				
Numerator:				
Basic:				
Net income	\$7,590	\$7,852	\$28,859	\$22,213
Allocation of net income to participating stockholders	(34	) (471	) (481	) (9,355
Net income available to common stockholders – basic	\$7,556	\$7,381	\$28,378	\$12,858
Diluted:				
Net income available to common stockholders – basic	\$7,556	\$7,381	\$28,378	\$12,858
Undistributed earnings re-allocated to common stockholders	1	40	21	660
Net income available to common stockholders – diluted	\$7,557	\$7,421	\$28,399	\$13,518
Denominator:				
Basic shares:				
Weighted-average shares used in computing basic net income available to common stockholders	50,457	44,473	49,410	27,015
Diluted shares:				
Weighted-average shares used in computing basic net income available to common stockholders	50,457	44,473	49,410	27,015
Dilutive effect of stock options using treasury-stock method	1,670	4,441	2,301	4,110
Weighted-average shares used in computing diluted net income available to common stockholders	52,127	48,914	51,711	31,125
Net income per share:				
Basic	\$0.15	\$0.17	\$0.57	\$0.48
Diluted	\$0.14	\$0.15	\$0.55	\$0.43

For the three and nine months ended September 30, 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 September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Weighted-average:				
Shares of redeemable convertible preferred stock	—	—	—	12,394
Shares of common stock subject to repurchase	227	2,837	838	3,437
Stock options outstanding	2,927	382	1,508	390
Restricted stock units outstanding	483	64	378	55

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4. Fair Value Measurements

The following tables present the financial assets measured at fair value on a recurring basis as of September 30, 2012 and December 31, 2011 (in thousands):

	September 30, 2012		
	Fair Value	Level 1	Level 2
Cash equivalents			
Money market funds	\$ 38	\$ 38	\$—
Commercial paper	46,897	—	46,897
Municipal bonds	1,400	—	1,400
	\$48,335	\$ 38	\$48,297
Short-term investments			
Commercial paper	\$4,499	\$—	\$4,499
Municipal bonds	109,611	—	109,611
Corporate bonds	11,087	—	11,087
	\$125,197	\$—	\$125,197
	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 September 30, 2012 and December 31, 2011, the Company did not use level 3 inputs to measure financial assets or liabilities at fair value.

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5. Short-term Investments

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

	September 30, 2012			Estimated Fair Value
	Amortized Cost	Unrealized Gains	Unrealized Losses	
Commercial paper	\$4,499	\$—	\$—	\$4,499
Municipal bonds	109,602	20	(11	) 109,611
Corporate bonds	11,083	4	—	11,087
	\$125,184	\$24	\$(11	) \$125,197

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 other income (expense), net in the Company's condensed consolidated statements of operations.

The weighted-average remaining maturity of the Company's investment portfolio was less than one year as of September 30, 2012 and December 31, 2011. As of September 30, 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):

	December 31, 2011	Additions	Patent assets acquired in business combination	Sale	September 30, 2012	
Patent assets	\$287,555	\$65,360	\$27,850	\$(50	) \$380,715
Accumulated amortization	(124,203) (59,218) —	27	(183,394)
Patent assets, net	\$163,352				\$197,321	

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 September 30, 2012 and December 31, 2011, the estimated useful lives of the Company's patent assets generally ranged from 24 to 60 months. As of September 30, 2012, the weighted-average original estimated useful life was 48 months.

The following table summarizes the expected future annual amortization expense of patent assets as of September 30, 2012 (in thousands):

2012 (remainder)	\$20,532
2013	72,022
2014	47,096

2015	33,482
2016	20,547
Thereafter	3,642
Total estimated future amortization expense	\$197,321

Amortization expense was \$21.5 million and \$16.1 million for the three months ended September 30, 2012 and 2011, respectively, and \$59.2 million and \$43.9 million for the nine months ended September 30, 2012 and 2011, respectively.

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7. Property and Equipment, Net

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

	September 30, 2012	December 31, 2011
Computer, equipment and software	\$995	\$666
Internal-use software	2,992	1,221
Furniture and fixtures	662	611
Leasehold improvements	162	139
Work-in-progress	—	178
Total property and equipment, gross	4,811	2,815
Less: Accumulated depreciation and amortization	(1,377	) (498
Total property and equipment, net	\$3,434	\$2,317

Depreciation and amortization expense was \$0.4 million and \$0.1 million for the three months ended September 30, 2012 and 2011, respectively, and \$0.9 million and \$0.3 million for the nine months ended September 30, 2012 and 2011, respectively. Stock-based compensation capitalized as part of the cost of internal-use software was \$0.1 million and less than \$0.1 million for the three months ended September 30, 2012 and 2011, respectively, and \$0.3 million and \$0.1 million for the nine months ended September 30, 2012 and 2011, respectively.

8. Business Combinations

On March 30, 2012, the Company entered into a number of agreements with Digtude Innovations, LLC (“Digtude”), Preservation Technologies LLC (“Preservation”), and Robert and Susan Kramer (collectively the “Agreements”). The Agreements were subject to closing conditions that were satisfied on April 19, 2012. Pursuant to the Agreements, the Company paid \$45.8 million and acquired among other things (i) certain patents, patent rights and a covenant not to sue and (ii) all of the issued and outstanding membership interests in Altitude Capital Management LLC (“ACM”).

The following table summarizes the estimated fair values of the components of identifiable intangible assets acquired and liabilities assumed as of the date of acquisition (in thousands):

Patent assets	\$27,850
Proprietary data and models	1,500
Trademark	1,000
Covenant not to compete	400
Deferred tax asset	8,373
Deferred tax liability	(8,143
Goodwill	) 14,785
Net assets acquired	\$45,765

The fair values assigned to identifiable intangible assets acquired and liabilities assumed are based on management’s estimates and assumptions. The excess of purchase consideration over the fair value of identifiable intangible assets acquired and liabilities assumed was recorded as goodwill. Patent assets represent the ownership or rights to more than 500 U.S. (and more than 50 non-U.S.) patents that were held by Digtude, certain sub-license rights to patents licensed exclusively by Preservation and a covenant not to sue entered into with Robert Kramer. The patent assets have an estimated weighted-average life of 55 months. The portfolios acquired cover a broad range of technologies including mobile handsets, TVs, cameras, PCs, media players, content delivery, video-on-demand, internet streaming, and enterprise networks and have increased the Company’s total portfolio of patent assets by more than 30%.

Proprietary data and models primarily consist of specialized data and processes related to patent analysis and valuation methodologies. These assets have an estimated weighted-average useful life of 48 months. Trademark represents the value of the Altitude Capital trademark with an estimated useful life of 48 months. The covenant not to compete represents certain restrictive covenants pursuant to which Robert Kramer has agreed to refrain from competing against any of the Company's lines of business for a period of 21 months. Goodwill recorded as a result of this acquisition is primarily related to enhancing the Company's position as a market leader capable of executing highly complex structured acquisitions. The value of goodwill is deductible for tax purposes.

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Under ASC 805-10, acquisition-related costs are not included as a component of consideration transferred but are required to be expensed as incurred. Acquisition-related costs were \$0.1 million and \$0.6 million for the three and nine months ended September 30, 2012 and are included in selling, general and administrative expenses. Pro forma results of operations reflecting the acquisition have not been presented because the effect of the acquisition is not material to the Company's results of operations.

9. Goodwill

Goodwill consisted of the following (in thousands):

Balance as of December 31, 2011	\$1,675
Acquisition of ACM	14,785
Balance as of September 30, 2012	\$16,460

As of the date of the Company's 2012 annual assessment, its fair value was substantially in excess of the Company's net book value, including goodwill. As such, the Company did not recognize an impairment charge during the three months ended September 30, 2012.

10. Intangible Assets, Net

Intangible assets, net, as of September 30, 2012 and December 31, 2011 consisted of the following (in thousands):

	September 30, 2012			December 31, 2011		
	Carrying Amount	Accumulated Amortization	Net Carrying Amount	Carrying Amount	Accumulated Amortization	Net Carrying Amount
Trademarks	\$ 1,890	\$ (500)	\$ 1,390	\$ 890	\$ (165)	\$ 725
Proprietary data and models	1,500	(169)	1,331	—	—	—
Developed technology	728	(319)	409	665	(128)	537
Covenant not to compete	480	(155)	325	80	(22)	58
Customer relationship	250	(111)	139	250	(49)	201
Other intangible assets	1,450	(1,450)	—	1,450	(1,229)	221
Intangible assets in-progress	—	—	—	95	—	95
	\$6,298	\$ (2,704)	\$ 3,594	\$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)	\$ 379
2013	1,496
2014	906
2015	625
2016	188
Total estimated future amortization expense	\$ 3,594

Amortization expense was \$0.4 million and \$0.3 million for the three months ended September 30, 2012 and 2011, respectively, and \$1.1 million and \$0.5 million for the nine months ended September 30, 2012 and 2011, respectively.

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11. Accrued and Other Current Liabilities

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

	September 30, 2012	December 31, 2011
Accrued payroll-related expenses	\$5,155	\$7,160
Accrued expenses	686	602
Total accrued liabilities	\$5,841	\$7,762
Patent and other assets purchased but not paid	\$1,065	\$250
Other current liabilities	1,059	1,932
Total other current liabilities	\$2,124	\$2,182

12. 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 represented the Company's estimated market borrowing rate as of the initial transaction date. As of September 30, 2012 and December 31, 2011, the remaining unpaid principal balance associated with the obligation was nil and \$1.1 million, respectively.

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 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 13.9% per annum, which represented the Company's estimated market borrowing rate as of the date of the transaction. As of September 30, 2012 and December 31, 2011, the remaining unpaid principal balance associated with the obligation was nil and \$3.0 million, respectively.

13. Commitments and Contingencies

Operating Lease Commitments

The Company leases its facilities under non-cancelable lease agreements. The Company's operating lease obligations have increased from those as of December 31, 2011 as a result of the following agreement entered into during the nine months ended September 30, 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 from May 2013 through October 2019 will be \$26.1 million.

Rent expense related to non-cancelable operating leases was \$0.6 million and \$0.4 million for the three months ended September 30, 2012 and 2011, respectively, and \$1.8 million and \$1.1 million for the nine months ended September 30, 2012 and 2011, respectively.

Litigation

From time to time, the Company may be a party to various litigation claims in the normal course of business. Legal fees and other costs associated with such actions are expensed as incurred. The Company assesses, in conjunction with its legal counsel, the need to record a liability for litigation or contingencies. A liability is recorded when and if it is determined that such a liability for litigation or contingencies is both probable and reasonably estimable. No liability for litigation or contingencies was recorded as of September 30, 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 lawsuit alleges that the Defendants violated federal antitrust law, California antitrust law and California unfair competition law. The lawsuit 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

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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.

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 September 30, 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 limitations. The term of the indemnification period is indefinite. The maximum amount of potential future indemnification is unspecified. The Company has no reason to believe that there is any material liability for actions, events or occurrences that have occurred to date.

14. Stock-Based Compensation

Equity Plans

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

	Shares Available for Grant	Options Outstanding		Weighted-Average Remaining Contractual Life in Years	Aggregate Intrinsic Value
		Number of Shares	Weighted-Average Exercise Price		
Balance - December 31, 2011	1,004	7,503	\$ 6.82		
Options authorized	2,457	—	—		
Options granted	(664)	) 664	16.16		
Options exercised	—	(1,568)	) 1.81		
Options forfeited	581	(581)	) 11.95		
Restricted stock units granted	(468)) —	—		
Restricted stock units forfeited	38	—	—		
Balance - September 30, 2012	2,948	6,018	8.66	8.1	\$25,531
Vested and exercisable - September 30, 2012		1,671	7.37	7.6	9,567
Vested and expected to vest - September 30, 2012		5,435	8.58	8.1	23,639

The total intrinsic value for options exercised during the three months ended September 30, 2012 and 2011 was \$3.2 million and \$11.2 million, respectively, and for options exercised during the nine months ended September 30, 2012 and 2011 it was \$21.9 million and \$17.8 million, respectively.

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Restricted Stock Units

The summary of restricted stock unit 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	468	15.95	
Vested	(95	) 23.27	
Forfeited	(38	) 17.76	
Non-vested units - September 30, 2012	514	17.67	\$9,083

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

Stock-based compensation expense for employees and non-employee directors is based on the fair value of the award on the date of grant and is recognized on a straight-line basis over the requisite service period of the award. 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 used to estimate the per share fair value of stock options granted and the resulting fair values are as follows:

	Three Months Ended September 30, 2012 ⁽¹⁾		Nine Months Ended September 30,		
	2011	2012	2011	2012	
Dividend yield	n/a	—	% —	% —	%
Risk-free rate	n/a	1.80	% 1.11	% 2.56	%
Expected volatility	n/a	59	% 61	% 58	%
Expected term - in years	n/a	6.1	6.0	6.4	
Grant date fair value	n/a	\$16.01	\$9.02	\$7.72	

⁽¹⁾ The Company did not grant stock option awards to its employees or non-employee directors during the three months ended September 30, 2012.

The fair value of restricted stock units granted to employees and non-employee directors is measured by reference to the fair value of the underlying shares on the date of grant. Changes in the fair value of the Company's common stock can materially affect the fair value of restricted stock units and ultimately how much stock-based compensation expense is recognized.

Stock-based compensation expense related to stock options granted to employees and non-employee directors was \$1.8 million and \$1.5 million for the three months ended September 30, 2012 and 2011, respectively, and \$5.7 million and \$3.6 million for the nine months ended September 30, 2012 and 2011, respectively. Stock-based compensation expense related to restricted stock units granted to employees and non-employee directors was \$0.6 million and \$0.2 million for the three months ended September 30, 2012 and 2011, respectively, and \$1.5 million and \$0.2 million the nine months ended September 30, 2012 and 2011, respectively.

As of September 30, 2012, there was \$22.7 million and \$8.2 million of unrecognized compensation cost related to stock options and restricted stock units, respectively, which was expected to be recognized over a weighted-average period of 2.9 years and 3.2 years, respectively. Future grants of equity awards will increase the amount of stock-based compensation expense to be recorded.

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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 or nine months ended September 30, 2012. During the three and nine months ended September 30, 2011, the Company issued nil and 10,000 shares of common stock, respectively, nil and 52,632 restricted stock units, respectively, and nil and 35,000 stock options, respectively, to non-employees in exchange for services.

Stock-based compensation expense for non-employees is based on the fair value of the award on the measurement date, which is the earlier of the date by which the commitment for performance by the non-employee to earn the award is reached and the date on which the non-employee's performance is complete. Each reporting period, the fair value of the unvested non-employee options or restricted stock units is revalued until the awards vest on the measurement date.

Non-employee stock-based compensation expense related to stock options was \$0.1 million and \$0.1 million for the three months ended September 30, 2012 and 2011, respectively, and \$0.3 million and \$0.8 million for the nine months ended September 30, 2012 and 2011, respectively. Non-employee stock-based compensation expense related to restricted stock units was less than \$0.1 million and \$0.2 million for the three months ended September 30, 2012 and 2011, respectively, and \$0.3 million and \$0.2 million for the nine months ended September 30, 2012 and 2011, respectively.

15. 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% and 39% for the three months ended September 30, 2012 and 2011, respectively, and 37% and 41% for the nine months ended September 30, 2012 and 2011, respectively. The decrease in the Company's effective tax rate in 2012 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 first quarter of 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 2008 through 2011 tax periods remain open to examination by federal and most state tax authorities. For the Company's foreign jurisdictions, the 2009 through 2011 tax years remain open to examination by their respective tax authorities.

16. Related-Party Transactions

During the three and nine months ended September 30, 2012, two members of the Company's board of directors also served on the boards of directors of RPX clients. The Company recognized subscription fee revenue of \$0.9 million and \$2.5 million related to these clients for the three and nine months ended September 30, 2012, respectively. During the three and nine months ended September 30, 2011, one member of the Company's board of directors also served on

the board of directors of an RPX client. For the three and nine months ended September 30, 2011, the Company recognized subscription fee revenue of \$0.7 million and \$2.0 million, respectively, related to this client. As of September 30, 2012 and December 31, 2011, there were no receivables due from these clients.

In April 2011, the Company sold an aggregate of 105,708 shares of its common stock at a price of \$14.19 per share to two members of its board of directors.

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

	Three Months Ended September 30,			Nine Months Ended September 30,				
	2012	2011		2012	2011			
United States	\$26,974	57 %	\$26,497	69 %	\$82,066	56 %	\$67,959	61 %
Japan	10,226	22	3,799	10	29,600	20	18,442	16
Other	9,844	21	8,098	21	34,465	24	25,233	23
Total revenue	\$47,044	100 %	\$38,394	100 %	\$146,131	100 %	\$111,634	100 %

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

	September 30,	December 31,
	2012	2011
United States	\$220,774	\$169,132
Japan	35	49
Total long-lived assets	\$220,809	\$169,181

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

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

We help companies reduce patent-related risk and expense by providing 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 September 30, 2012, we had a client network of 128 companies.

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 that are being or may be asserted against our current or prospective clients. We also may occasionally enter into agreements to acquire covenants not to sue in order to further mitigate our client's litigation risk. The acquired patents, licenses to patents and agreements for covenants not to sue are collectively referred as "patent assets." 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.

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During the three months ended September 30, 2012, we also began underwriting patent infringement liability insurance policies. For the three and nine months ended September 30, 2012, the effect of the insurance policies that have been issued have not been material to our results of operations or financial condition.

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.

Revenue grew to \$146.1 million for the nine months ended September 30, 2012 as our total client network increased to 128 clients, up from 112 as of December 31, 2011. We ended the quarter with deferred revenue of \$98.7 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 patent asset acquisition spend on both a “gross” and a “net” basis, whereby the “gross spend” represents the aggregate amount spent including amounts contributed by our clients in syndicated 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 and nine months ended September 30, 2012, we completed 8 and 23 acquisitions of patent assets, respectively. For the three months ended September 30, 2012, our gross and net acquisition spend totaled \$26.4 million. For the nine months ended September 30, 2012, our gross and net acquisition spend totaled \$147.4 million and \$93.2 million, respectively. Over the trailing four quarters ended September 30, 2012, our gross and net acquisition spend totaled \$176.2 million and \$121.9 million, respectively. From our inception through September 30, 2012, we have completed 113 acquisitions of patent assets with gross and net acquisition spend of \$519.1 million and \$383.2 million, respectively.

On March 30, 2012, we entered into a number of agreements with Digitside Innovations, LLC (“Digitside”), Preservation Technologies LLC (“Preservation”), and Robert and Susan Kramer (collectively, the “Agreements”). The Agreements were subject to closing conditions that were satisfied on April 19, 2012. Pursuant to the Agreements, we paid \$45.8 million and acquired among other things (i) certain patents, patent rights and covenant not to sue and (ii) all of the issued and outstanding membership interests in Altitude Capital Management LLC (“ACM”). Eleven of our clients participated in the transaction, making it our largest syndicated transaction to date. We entered into the Agreements to significantly increase our portfolio of patent assets and remove the potential exposure that Digitside, Preservation and ACM, present to our clients. We acquired ownership of or rights to more than 500 U.S. (and more than 50 non-U.S.) patents that were held by Digitside and certain sub-license rights to patents licensed exclusively by Preservation. The portfolios acquired cover a broad range of technologies including mobile handsets, TVs, cameras, PCs, media players, content delivery, video-on-demand, internet streaming, and enterprise networks and have increased the Company’s total portfolio of patent assets by more than 30%. In addition, we obtained proprietary data and models related to patent analysis and valuation methodologies. We believe this transaction will enhance our market intelligence and patent risk management capabilities. We also obtained certain restrictive covenants pursuant to which Robert Kramer agreed to refrain from competing against any of our lines of business for an extended period of time.

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Key Components of Results of Operations

Revenue

Historically, substantially all of our revenue has consisted of fees paid by our clients under subscription agreements. 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. From time to time, we also recognize 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. 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

Cost of revenue primarily consists of amortization expenses related to acquired patent assets. Acquired patent assets are capitalized and amortized ratably over their estimated useful lives or the remaining statutory life. Also included in the cost of revenue are expenses incurred to maintain and prosecute patents and patent applications and amortization expense for acquired intangible assets and internally developed software. 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, costs 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.

Provision for Income Taxes

Income taxes are computed using the asset and liability method, under which deferred tax assets and liabilities are determined based on the difference between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Based on available information, we believe it is likely 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 accounting principles generally accepted in the United States of America. 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.

With the exception of the paragraph below, which describes our accounting for business combinations, there have been no material changes to our critical accounting policies and estimates during the nine months ended September 30, 2012, as compared to those described in our Annual Report on Form 10-K filed with the SEC on

March 26, 2012.

We apply the provisions of Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 805, Business Combinations (“ASC 805”), in the accounting for our business acquisitions. ASC 805 requires companies to separately recognize goodwill from the assets acquired and liabilities assumed, which are at their acquisition date fair values. Goodwill as of the acquisition date represents the excess of the purchase price over the fair values of the assets acquired and the liabilities assumed.

We use significant estimates and assumptions, including fair value estimates, to determine fair value of assets acquired and liabilities assumed and when applicable the related useful lives of the acquired assets, as of the business combination date. When those estimates are provisional, we refine them as necessary during the measurement period. The measurement period is the period after the acquisition date, not to exceed one year, in which we may gather new information about facts and circumstances that existed as of the acquisition date to adjust the provisional amounts recognized. Measurement period adjustments are applied retrospectively, if material. All other adjustments are recorded to the consolidated statements of operations.

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Results of Operations

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

	Three Months Ended September 30,		Nine Months Ended September 30,		
	2012	2011	2012	2011	
Revenue	\$47,044	\$38,394	\$146,131	\$111,634	
Cost of revenue	21,980	16,459	60,508	44,652	
Selling, general and administrative expenses	13,147	9,069	39,903	28,465	
(Gain) on sale of patent assets, net	—	—	(177) —	
Operating income	11,917	12,866	45,897	38,517	
Other income (expense), net	65	(79) 92	(645)
Income before provision for income taxes	11,982	12,787	45,989	37,872	
Provision for income taxes	4,392	4,935	17,130	15,659	
Net income	\$7,590	\$7,852	\$28,859	\$22,213	

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

	Three Months Ended September 30,		Nine Months Ended September 30,		
	2012	2011	2012	2011	
Revenue	100	% 100	% 100	% 100	%
Cost of revenue	47	43	41	40	
Selling, general and administrative expenses	28	24	27	25	
(Gain) on sale of patent assets, net	—	—	—	—	
Operating income	25	33	32	35	
Other income (expense), net	—	—	—	(1)
Income before provision for income taxes	25	33	32	34	
Provision for income taxes	9	13	12	14	
Net income	16	% 20	% 20	% 20	%

Revenue

Our revenue for the three months ended September 30, 2012 was \$47.0 million compared to \$38.4 million during the same period a year ago, an increase of \$8.6 million, or 23%. 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. Our client count increased by eight and seven clients during the three months ended September 30, 2012 and 2011, respectively. As of September 30, 2012 we had a total client network of 128 companies.

Our revenue for the nine months ended September 30, 2012 was \$146.1 million compared to \$111.6 million during the same period a year ago, an increase of \$34.5 million, or 31%. 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 and an increase in revenue from the sale of perpetual licenses. Our client count

increased by 16 and 31 clients, during the nine months ended September 30, 2012 and 2011, respectively. Revenue for the nine months ended September 30, 2012 also included \$9.4 million from the sale of perpetual licenses as compared to \$3.3 million in the same period in 2011.

Cost of Revenue

Our cost of revenue for the three months ended September 30, 2012 was \$22.0 million compared to \$16.5 million during the same period a year ago, an increase of \$5.5 million, or 34%. The increase was primarily a result of additional amortization expense attributable to the increase in our patent assets. Amortization expense related to our patent assets was \$21.5 million and \$16.1 million for the three months ended September 30, 2012 and 2011, respectively. The expenses incurred to maintain patents and prosecute patent

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applications included in our portfolio were approximately \$0.3 million and \$0.2 million for the three months ended September 30, 2012 and 2011, respectively.

Our cost of revenue for the nine months ended September 30, 2012 was \$60.5 million compared to \$44.7 million during the same period a year ago, an increase of \$15.8 million, or 36%. The increase was primarily a result of additional amortization expense attributable to the increase in our patent assets. Amortization expense related to our patent assets was \$59.2 million and \$43.9 million for the nine months ended September 30, 2012 and 2011, respectively. The expenses incurred to maintain patents and prosecute patent applications included in our portfolio were approximately \$0.8 million and \$0.6 million for the nine months ended September 30, 2012 and 2011, respectively. Amortization expense related to our intangible assets was \$0.5 million and \$0.2 million for the nine months ended September 30, 2012 and 2011, respectively.

Selling, General and Administrative Expenses

Our selling, general and administrative expenses for the three months ended September 30, 2012 were \$13.1 million compared to \$9.1 million during the same period a year ago, an increase of \$4.0 million or 45%. The increase was primarily due to a \$1.2 million increase in personnel-related costs, including stock-based compensation, attributable to increasing our headcount to 126 employees as of September 30, 2012, compared to 99 employees at September 30, 2011. Expenses for professional services for the three months ended September 30, 2011 were reduced by \$2.1 million due to the recovery of professional fees associated with an incomplete syndicated acquisition that had been expensed in 2010.

Our selling, general and administrative expenses for the nine months ended September 30, 2012 were \$39.9 million compared to \$28.5 million during the same period a year ago, an increase of \$11.4 million, or 40%. The increase was primarily due to a \$5.9 million increase in personnel-related costs, including stock-based compensation, attributable to increasing our headcount to 126 employees as of September 30, 2012, compared to 99 employees at September 30, 2011, a \$2.0 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. Expenses for professional services for the nine months ended September 30, 2011 were reduced by \$2.1 million due to the recovery of professional fees associated with an incomplete syndicated acquisition that had been expensed in 2010.

Other Income (Expense), Net

Other income (expense), net for the three months ended September 30, 2012 was \$65,000 compared to other income (expense), net of (\$79,000) during the same period a year ago, a decrease of \$0.1 million. Other income (expense), net, for the nine months ended September 30, 2012 was \$0.1 million compared to other income (expense), net of (\$0.6 million) during the same period a year ago, a decrease of \$0.7 million. The decreases for both the three and nine months ended September 30, 2012 were primarily due to a reduction in outstanding debt balances.

Provision for Income Taxes

Our effective tax rate for both the three and nine months ended September 30, 2012 was 37% including the impact of discreet benefit items, compared to 39% and 41% for the three and nine months ended September 30, 2011, respectively. 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.

Liquidity and Capital Resources

As of September 30, 2012, we had \$83.4 million of cash and cash equivalents and \$125.2 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.

We believe our existing cash, cash equivalents and short-term investments will be sufficient to meet our working capital and capital expenditure needs for the foreseeable future. Our future capital needs will depend on many factors, including, among other things, our acquisition of patent assets, addition and renewal of client membership agreements and development of new products and services. 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

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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 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):

	Nine Months Ended September 30,	
	2012	2011
Net cash provided by operating activities	\$80,665	\$97,265
Net cash used in investing activities	(107,959	) (195,740
Net cash provided by financing activities	3,985	173,503
Increase (decrease) in cash and cash equivalents	\$(23,309	) \$75,028

Cash Flows from Operating Activities

Cash provided by operating activities for the nine months ended September 30, 2012 was \$80.7 million, consisting of net income of \$28.9 million; adjustments for non-cash items of \$65.0 million primarily due to \$61.2 million of depreciation and amortization, \$7.5 million of stock-based compensation, \$3.8 million of amortization of premium on investments and reduction of \$5.8 million due to excess tax benefit from stock-based compensation and a \$1.5 million net increase in our deferred tax assets; and a reduction in working capital and non-current assets and liabilities totaling \$13.2 million primarily from a \$10.0 million increase due to a refundable deposit to a third party, a \$2.9 million decrease in accrued liabilities and a \$9.6 million decrease in deferred revenue, which was partially offset by a \$5.9 million decrease in prepaid expenses and other assets, a \$3.2 million decrease in accounts receivable due to collections from our clients. The decrease in deferred revenue is due to \$137.0 million of revenue and other adjustments recognized during the period and was partially offset by revenue billings to new and existing clients of \$127.4 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.

Cash provided by operating activities for the nine months ended September 30, 2011 was \$97.3 million, consisting of net income of \$22.2 million, adjustments for non-cash items of \$46.5 million and changes in working capital and non-current assets and liabilities totaling \$28.6 million. The change in working capital resulted primarily from a decrease in accounts receivable of \$10.6 million, an increase in deferred revenue of \$15.0 million and an increase in accrued liabilities of \$7.5 million. The increase in deferred revenue for the nine months ended September 30, 2011 is primarily attributable to \$126.4 million of subscription billings for the period offset by \$111.3 million of revenue recognized during the period. The increase in deferred revenue is due to annual subscription billings and the growth in our membership to 103 clients as of September 30, 2011 from 72 clients as of December 31, 2010. 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.

Cash Flows from Investing Activities

Cash used in investing activities for the nine months ended September 30, 2012 was \$108.0 million, of which \$65.1 million was used to acquire patent assets, \$45.8 million paid for the business acquisition of Altitude Capital and \$1.6 million used to purchase property and equipment. This increase was partially offset by \$3.7 million in proceeds from

net maturities of short-term marketable securities. We expect our cash used in investing activities to increase in the future as we acquire additional patents.

Cash used in investing activities for the nine months ended September 30, 2011 was \$195.7 million, of which \$63.8 million represented our acquisitions of patent assets and \$127.7 million represented our net purchases of short-term marketable securities. We acquired substantially all of the assets of two companies in separate transactions for cash consideration totaling \$3.3 million.

Cash Flows from Financing Activities

Net cash provided by financing activities for the nine months ended September 30, 2012 was \$4.0 million. Net cash provided by financing activities during the nine months ended September 30, 2012 was due to \$5.8 million excess tax benefit from stock-based compensation, \$2.8 million proceeds from exercise of stock options, \$0.5 million proceeds from other obligations, partially offset by \$5.2 million of principal payments on our deferred payment obligations.

Net cash provided by financing activities during the nine months ended September 30, 2011 was \$173.5 million. Net cash

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provided by financing activities during the nine months ended September 30, 2011 was due primarily to proceeds from our initial public offering and follow-on offering, net of issuance costs, of approximately \$184.9 million, offset by the repayment of \$18.1 million of debt and other deferred payment obligations.

Contractual Obligations and Commitments

We generally do not enter into long-term minimum purchase commitments. Our principal commitments consist of obligations under operating leases for office space. Commitments to settle contractual obligations in cash under operating leases and other obligations have increased from the “Commitments and Contingencies” table included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011 as a result of the following agreement entered into during the nine months ended September 30, 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 from May 2013 through October 2019 will be \$26.1 million.

Off Balance Sheet Arrangements

There were no substantial changes to our guarantee and indemnification obligations or other off balance sheet arrangements during the nine months ended September 30, 2012.

Recent Accounting Pronouncements

Recently Issued Accounting Standards

In October 2012, the FASB issued ASU 2012-04, Technical Corrections and Improvements (“ASU 2012-04”), which amends a wide range of topics in the ASC. These amendments include technical corrections and improvements to the Accounting Standards Codification and conforming amendments related to fair value measurements. The amendments in ASU 2012-04 will be effective for fiscal periods beginning after December 15, 2012. The adoption of ASU 2012-04 is not expected to have a material impact on our financial position or results of operations.

In July 2012, the FASB issued ASU 2012-02, Intangibles - Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment (“ASU 2012-02”), which amends ASU 2011-08, Intangibles - Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment and permits an entity to first assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test in accordance with Subtopic 350-30, Intangibles - Goodwill and Other - General Intangibles Other than Goodwill. The amendments are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted, including for annual and interim impairment tests performed as of a date before July 27, 2012, if a public entity’s financial statements for the most recent annual or interim period have not yet been issued or, for nonpublic entities, have not yet been made available for issuance. The adoption of ASU 2012-02 is not expected to have a material impact on our financial position or results of operations.

Recently Adopted Accounting Standards

In August 2012, the FASB issued ASU 2012-03, Technical Amendments and Corrections to SEC Sections: Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin (“SAB”) No. 114 (“SAB 114”), Technical

Amendments Pursuant to SEC Release No. 33-9250, and Corrections Related to FASB Accounting Standards Update 2010-22 (“SEC Update”) (“ASU 2012-03”), which amends various SEC paragraphs pursuant to the issuance of SAB No. 114. This ASU became effective upon issuance, and the adoption of this ASU had no impact on our financial position or results of operations.

In June 2011, the Financial Accounting Standards Board issued Accounting Standards Update 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, we adopted this ASU and elected the two-statement presentation option. Other than the change in presentation, the adoption of this ASU had no impact on our financial position or results of operations.

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Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

Foreign Currency Exchange Risk

Our subscription agreements are denominated in U.S. dollars, and therefore, our 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 and the European Euro 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 and short-term investments of \$208.6 million as of September 30, 2012. Our 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 on 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 September 30, 2012, our short-term investments of \$125.2 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 September 30, 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 the fair value of an asset below its carrying value is other-than-temporary. As of September 30, 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 and nine months ended September 30, 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 and nine months ended September 30, 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 September 30, 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 September 30, 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.

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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.

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 13 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 and existing clients may not continue to be successful. We evaluate our business model from time to time in order to address the evolving needs of our clients and prospective clients, particularly in an industry that continues to evolve. Furthermore, 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;
- lower subscription fees from clients where the annual subscription fee decreases due to declining operating income or revenue of such clients;
- 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 changes in our own pricing policies or those 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

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and how we recognize revenue under subscription agreements;

- 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;
- losses incurred in insurance policies underwritten by us;
- 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-size 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, reduce our subscription fee rates, or consider adding new pricing programs, 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.

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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. Mid- and small-size companies are generally subject to less patent litigation and we expect even lengthier sales cycles for such companies. We spend substantial time, effort and resources in our membership sales efforts without any assurance that our efforts will produce any membership sales. In addition, subscriptions are frequently subject to budget constraints, multiple approvals, and unplanned administrative, processing and other delays. As a result of these factors, our membership sales in any period are difficult to predict and will likely vary substantially between periods, which may cause our cash flow to fluctuate significantly between periods.

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 September 30, 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.

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.

Our form of subscription agreement for our early clients 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

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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.

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

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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, Collier 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. Many of these operating companies have significantly greater financial resources than we have and can acquire patent assets at prices that we may not be able to pay.

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 substantially greater financial resources and a larger client base and sales and marketing teams. The competition we face now and in the future could result in increased pricing pressure, reduced margins, increased sales and marketing expenses and a failure to increase, or the loss of, market share. We may not be able to maintain or improve our competitive position against our current or future competitors, and our failure to do so could seriously harm our business.

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.

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 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 issues 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

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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. From January 1 through September 30, 2012, our headcount grew from 110 to 126 employees. Because we intend to continue to hire, we expect our operating expenses to increase. 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. Furthermore, these companies are generally not subject to as much patent litigation as larger companies and, therefore, may not perceive sufficient benefits to purchase our solution. 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 nine months ended September 30, 2012, our 10 highest revenue generating clients accounted for approximately 31% 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.

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.

We are investing significant management time and resources into developing products designed to provide insurance against NPE patent infringement 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.

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

We recently started to 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 and which could cause our expenses and earnings to vary significantly from quarter to quarter. 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. Under GAAP, while revenue is recognized ratably, losses are recognized as incurred. This will increase the variability our or operating results, until such time that our insurance business operates at scale. Furthermore, the insurance market is highly regulated, so operation of an insurance business will expose us to additional laws and regulations. Compliance with such laws and regulations may be costly, which could affect our results of operations.

We rely on various actuarial models in pricing our insurance product and estimate the frequency and severity of related loss events, but actual results could differ materially from the model outputs.

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

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 lawsuit 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

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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

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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.

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 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;
- incurrance 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.

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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.

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.

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

The availability and cost of reinsurance are subject to prevailing market conditions that are beyond our control. No assurances can be made that reinsurance will remain continuously available to us in amounts that we consider sufficient and at rates that we consider acceptable, which would cause us to increase the amount of risk we retain, reduce the amount of business we underwrite or look for alternatives to reinsurance. This, in turn, could have a material adverse effect on our financial condition or results of operations.

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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.

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 \$9.24 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;
- 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;
- 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;
- 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 52% 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 September 30, 2012, affiliates of Index Ventures, affiliates of Charles River Ventures and KPCB Holdings, Inc. each beneficially own approximately 10%, 14% and 13%, respectively, of our outstanding common stock, and our directors and executive officers and their affiliates, in the aggregate, beneficially own approximately an additional 15% 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.

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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.

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 September 30, 2012, some of our existing stockholders have demand and piggyback rights to require us to register with the SEC approximately 26,000,000 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 public company, our stock price has been volatile, and securities class action litigation has often been instituted against companies following periods of volatility of their stock price. Any such litigation, if instituted against us, could result in substantial costs and a diversion of our management's attention and resources.

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

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:

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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.

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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:

Exhibit Number	Exhibit Title	Incorporated by Reference			Filing Date	Provided Herewith
		Form	File No.	Exhibit No.		
3.1	Amended and Restated Certificate of Incorporation of RPX Corporation	S-1	333-171817	3.2	1/21/2011	
3.2	Amended and Restated Bylaws of RPX Corporation	S-1/A	333-171817	3.4	4/18/2011	
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.SCH+	XBRL Taxonomy Extension Schema Document					X
101.CAL+	XBRL Taxonomy Extension Calculation Linkbase Document					X
101.DEF+	XBRL Taxonomy Extension Definition Linkbase Document					X
101.LAB+	XBRL Taxonomy Extension Label Linkbase Document					X
101.PRE+	XBRL Taxonomy Extension Presentation Linkbase Document					X

+ 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: November 2, 2012

By: /s/ JOHN A. AMSTER
John A. Amster
Chief Executive Officer and Director

DATE: November 2, 2012

By: /s/ ADAM C. SPIEGEL
Adam C. Spiegel
Chief Financial Officer and Senior Vice President,
Finance

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