RPX Corp
Form 10-Q
November 04, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2016
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____to_____
Commission File Number: 001-35146

RPX Corporation

(Exact Name of Registrant as Specified in Its Charter)

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

ONE MARKET PLAZA, SUITE 800
SAN FRANCISCO, CALIFORNIA 94105
(Address of Principal Executive Offices and Zip Code)
Registrant's Telephone Number, Including Area Code: (866) 779-7641

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES [x] NO [ ]
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES [x] NO [ ]
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	[x]	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 [x]
There were 49,152,648 shares of the registrant's common stock issued and outstanding as of October 28, 2016.

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RPX Corporation
Form 10-Q Quarterly Report

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PART I. FINANCIAL INFORMATION

Item1. Financial Statements (unaudited)

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

	September 30, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 87,168	$ 94,983
Short-term investments	95,539	231,015
Restricted cash	371	701
Accounts receivable, net	34,326	13,905
Prepaid expenses and other current assets	25,789	12,643
Total current assets	243,193	353,247
Patent assets, net	206,624	254,560
Property and equipment, net	7,185	4,733
Intangible assets, net	59,683	1,801
Goodwill	156,347	19,978
Restricted cash, less current portion	965	727
Deferred tax assets	30,594	16,619
Other assets	8,865	6,896
Total assets	$ 713,456	$ 658,561
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 2,172	$ 959
Accrued liabilities	13,553	14,842
Deferred revenue	97,126	110,921
Deferred payment obligations	—	2,383
Current portion of long-term debt	5,849	—
Other current liabilities	1,798	467
Total current liabilities	120,498	129,572
Deferred revenue, less current portion	5,565	4,731
Deferred tax liabilities	4,412	—
Long-term debt	89,885	—
Other liabilities	8,613	7,779
Total liabilities	228,973	142,082
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Common stock	5	5
Additional paid-in capital	357,484	344,610
Retained earnings	137,865	172,115
Accumulated other comprehensive loss	(10,871)	(251)
Total stockholders' equity	484,483	516,479
Total liabilities and stockholders' equity	$ 713,456	$ 658,561

The accompanying notes are an integral part of these 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,	
	2016	2015	2016	2015
Revenue	$88,461	$68,212	$251,305	$219,050
Cost of revenue	50,830	37,639	147,566	109,383
Selling, general and administrative expenses	23,615	18,773	76,414	57,229
Gain on sale of patent assets, net	—	—	—	(592)
Operating income	14,016	11,800	27,325	53,030
Interest and other income (expense), net:				
Interest income	162	195	348	515
Interest expense	(922)	—	(2,155)	—
Other income (expense), net	(490)	681	813	1,416
Total interest and other income (expense), net	(1,250)	876	(994)	1,931
Income before provision for income taxes	12,766	12,676	26,331	54,961
Provision for income taxes	4,651	4,842	9,829	21,066
Net income	$8,115	$7,834	$16,502	$33,895
Net income per share:				
Basic	$0.16	$0.14	$0.32	$0.62
Diluted	$0.16	$0.14	$0.32	$0.61
Weighted-average shares used in computing net income per share:				
Basic	49,713	54,800	50,932	54,491
Diluted	50,247	55,703	51,462	55,547

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income	$8,115	$7,834	$16,502	$33,895
Other comprehensive income, net of tax:				
Unrealized holding gains (losses) on available-for-sale securities arising during the period, net of tax	(129)	(69)	118	(201)
Foreign currency translation adjustments	(4,258)	—	(10,738)	—
Comprehensive income	$3,728	$7,765	$5,882	$33,694

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

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

	Nine Months Ended September 30, 2016	2015
Operating activities		
Net income	$16,502	$33,895
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	129,312	107,026
Stock-based compensation	14,097	13,128
Excess tax benefit from stock-based compensation	(90)	(1,404)
Gain on sale of patent assets, net	—	(592)
Amortization of premium on investments	1,564	4,838
Deferred taxes	(5,975)	(376)
Unrealized foreign currency loss	2,006	—
Fair value adjustments on deferred payment obligation	(1,920)	(1,317)
Gain on extinguishment of deferred payment obligation	(463)	—
Realized loss on exchange of short-term investments	290	—
Other	902	—
Changes in assets and liabilities, net of business acquired:		
Accounts receivable, net	(8,168)	14,117
Prepaid expenses and other assets	(11,177)	(9,790)
Accounts payable	(276)	718
Accrued and other liabilities	(3,742)	(2,833)
Deferred revenue	(13,063)	(18,878)
Net cash provided by operating activities	119,799	138,532
Investing activities		
Purchases of investments	(62,955)	(205,393)
Maturities of investments	48,073	182,725
Sales of investments	145,925	—
Business acquisition, net of cash acquired	(228,453)	(425)
Decrease in restricted cash	427	297
Purchases of property and equipment	(3,004)	(1,617)
Acquisitions of patent assets	(71,021)	(84,068)
Proceeds from sale of patent assets	—	650
Acquisition of other assets	—	(2,500)
Net cash used in investing activities	(171,008)	(110,331)
Financing activities		
Repayment of principal on deferred payment obligations	—	(935)
Proceeds from deferred payment obligations	—	6,270
Proceeds from issuance of term debt	100,000	—
Payment of debt issuance costs	(2,003)	—
Repayment of principal on term debt	(2,500)	—
Deferred acquisition payment	(1,320)	—
Proceeds from exercise of stock options	3,657	4,646
Taxes paid related to net-share settlements of restricted stock units	(3,135)	(3,670)
Excess tax benefit from stock-based compensation	90	1,404

Payments of capital leases	(352)	—
Repurchase of common stock	(50,752)	(9,367)
Net cash provided by (used in) financing activities	43,685	(1,652)
Foreign-currency effect on cash and cash equivalents	(291)	—
Net increase (decrease) in cash and cash equivalents	(7,815)	26,549
Cash and cash equivalents at beginning of period	94,983	78,019
Cash and cash equivalents at end of period	$87,168	$104,568

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

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

	Nine Months Ended September 30,	
	2016	2015
Non-cash investing and financing activities		
Change in patent assets purchased and accrued but not paid	$(558)	$1,250
Change in fixed assets purchased and accrued but not paid	$485	$—
Patent assets received in barter transactions	$381	$—
Nonmonetary exchange of investments	$—	$5,935

The accompanying notes are an integral part of these 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 occasionally enters into agreements to acquire covenants not to sue in order to further mitigate its clients’ litigation risk. The acquired patents, licenses to patents, patent rights and agreements for covenants not to sue are collectively referred to as “patent assets.” The Company’s patent risk management 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. In some instances, the Company accepts a payment from a client to finance part or all of an acquisition involving patent assets that may cost more than the Company is prepared to spend with its own capital resources or that are relevant only to a very small number of clients. In these instances, the Company facilitates syndicated transactions that include cash contributions from participating clients in addition to their annual subscription fees.

In addition to the Company’s core solution, the Company underwrites patent infringement liability insurance policies to insure against certain costs of litigation through its reinsurance company which assumes a portion of the underwriting risk on insurance policies that the Company issues on behalf of a Lloyd’s of London underwriting syndicate. As of and for the nine months ended September 30, 2016, the effect of the insurance policies that the Company has issued or assumed through its reinsurance business was not material to the Company’s results of operations, financial condition or cash flows.

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

2. Basis of Presentation and Significant Accounting Policies

Basis of Presentation

The accompanying condensed consolidated balance sheet as of September 30, 2016, the condensed consolidated statements of operations and the condensed consolidated statements of comprehensive income for the three and nine months ended September 30, 2016 and 2015, and the condensed consolidated statements of cash flows for the nine months ended September 30, 2016 and 2015, are unaudited. The condensed consolidated balance sheet as of December 31, 2015 was derived from the audited consolidated financial statements which are included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2015, which was filed with the U.S. Securities and Exchange Commission (“SEC”) on February 26, 2016. 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, 2015.

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America and with the instructions for Form 10-Q and Regulation S-X for interim financial statements. Accordingly, they do not include all of the information and notes required for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring items, necessary to state fairly the results of the interim periods have been included in the accompanying financial statements. Operating results for the three or nine months ended September 30, 2016 are not necessarily indicative of the results that may be expected for any subsequent interim period or for the year ending December 31, 2016.

Significant Accounting Policies

Other than the adoption of the revenue recognition policies related to the acquired discovery services solution disclosed below, there have been no material changes to the Company’s significant accounting policies during the nine months ended September 30, 2016, as compared to the significant accounting policies presented under the heading “Basis of Presentation and Significant Accounting Policies” in Note 2 of the Notes to Consolidated Financial Statements in Part II, Item 8 of the Company’s Annual Report on Form 10-K filed with the SEC on February 26, 2016.

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The Company recognizes revenue from its discovery services solution in accordance with Accounting Standards Codification 605, Revenue Recognition ("ASC 605"). Under ASC 605, revenue is recognized when persuasive evidence of an arrangement exists, the related services are provided, the price is fixed or determinable, and collectability is reasonably assured.

The following is a description of the Company's significant sources of revenue from its discovery services solution:

- data hosting fees based on data stored and number of users;
- fees for month-to-month delivery of services, such as data processing (conversion of data into organized, searchable electronic database), project management and data collection services;
- document review services which assist clients in the manual review of data responsive to a legal matter; and
- printing and binding services (paper-based services).

The Company enters into agreements pursuant to which the Company offers various discovery services. Clients are generally billed monthly based on contractual unit prices and volumes for services delivered. The agreements are typically for an indefinite period of time, however, they are cancelable at will by either party. The Company is entitled to all fees incurred for services performed. The majority of the Company's discovery services revenue comes from two types of billing arrangements: usage based and fixed fee.

Usage-based arrangements require the client to pay based upon predetermined unit prices and volumes for data hosing, data processing and paper-based services. Project management and review hours are billed based upon the number of hours worked by certain client service processionals at agreed upon rates.

In fixed-fee billing arrangements, the Company agrees to a pre-established monthly fee over a specified term in exchange for various services. The fees are not tied to the attainment of any contractually defined objectives and the monthly fee is nonrefundable.

Based on an evaluation of the discovery services delivered to each client, the Company has determined that each deliverable has stand-alone value to the client as each of the Company’s discovery services can be sold on a stand-alone basis by the Company and the discovery services are available from other vendors. Additionally, discovery services do not carry a significant degree of risk or unique acceptance criteria that would require a dependency on the performance of future services. The Company recognizes revenue from these arrangements based on contractually stated prices. The Company allocates revenue to the various units of accounting in its arrangements based on the best estimate of selling price for each unit of accounting, which are consistent with the stated prices in those arrangements.

The Company’s discovery services arrangements do not include any substantive general rights of return or other contingencies.

Recent Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-15 Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments ("ASU 2016-15"). The standard is intended to eliminate diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. ASU 2016-15 will be effective for fiscal years beginning after December 15, 2017. Early adoption is permitted for all entities. The Company is currently evaluating the impact of this guidance on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses ("ASU 2016-13") on measurement of credit losses on financial instruments. This ASU requires financial assets measured at amortized cost to be presented at the net amount expected to be collected and available-for-sale debt securities to record credit losses through an allowance for credit losses. ASU 2016-13 will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted as early as of the fiscal years beginning after December 15, 2018. The Company is currently evaluating the impact of this guidance on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"). This ASU affects entities that issue share-based payment awards to their employees. ASU 2016-09 is designed to simplify several aspects of accounting for share-based payment award transactions that include the income tax consequences, classification of awards as either equity or liabilities, classification on the statement of cash flows, and forfeiture rate calculations. ASU 2016-09 will become effective for annual and interim periods beginning after December 15, 2016, and early adoption is permitted in any interim or annual period. The Company is currently evaluating the impact of this guidance on its consolidated financial statements.

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In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) (“ASU 2016-02”), which requires lessees to put most leases on their balance sheets but recognize the expenses on their income statements in a manner similar to current practice. ASU 2016-02 states that a lessee would recognize a lease liability for the obligation to make lease payments and a right-to-use asset for the right to use the underlying asset for the lease term. The new standard is effective for interim and annual periods beginning after December 15, 2018 and early adoption is permitted. The Company is currently evaluating the impact of this guidance on its consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10) - Recognition and Measurement of Financial Assets and Financial Liabilities ("ASU 2016-01"), which amends guidance related to certain aspects of the recognition, measurement, presentation, and disclosure of financial instruments. This update is effective for fiscal years beginning after December 15, 2018, and interim periods in those years. Early adoption is permitted. The Company is currently evaluating the impact of this guidance on its consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606) (“ASU 2014-09”), which will supersede most existing revenue recognition guidance in U.S. generally accepted accounting principles (“U.S. GAAP”) once it becomes effective. ASU 2014-09 requires an entity to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. ASU 2014-09 defines a five-step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. Entities have the option of using either a full retrospective or modified retrospective approach to adopt the new standards. In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net), which clarifies the implementation guidance for gross versus net considerations in ASU 2014-09. In April 2016, the FASB issued ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, which amends the guidance in ASU 2014-09 related to identifying performance obligations and accounting for licenses of intellectual property. In May 2016, the FASB issued ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients, which provides clarification on assessing the collectability criterion, presentation of sales taxes, measurement date for noncash consideration, and completed contracts at transition. These ASUs will be effective for annual and interim periods beginning after December 15, 2017 and early adoption is permitted for annual and interim periods beginning after December 15, 2016. The Company is currently evaluating the impact of this guidance on its consolidated financial statements and has not yet selected the method of transition.

3. Net Income Per Share

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Numerator:				
Net income	$8,115	$7,834	$16,502	$33,895
Denominator:				
Basic shares:				
Weighted-average shares used in computing basic net income per share	49,713	54,800	50,932	54,491
Diluted shares:				
Weighted-average shares used in computing basic net income per share	49,713	54,800	50,932	54,491
Dilutive effect of stock options and restricted stock units using the treasury-stock method	534	903	530	1,056
Weighted-average shares used in computing diluted net income per share	50,247	55,703	51,462	55,547
Net income per share:				
Basic	$0.16	$0.14	$0.32	$0.62
Diluted	$0.16	$0.14	$0.32	$0.61

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,	
	2016	2015	2016	2015
Outstanding weighted-average:				
Stock options	739	657	782	681
Restricted stock units	1,519	223	2,253	202

4. Financial Instruments

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

	September 30, 2016					
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value	Level 1	Level 2
Assets:						
Cash equivalents:						
Commercial paper	$15,847	$—	$—	$15,847	$—	$15,847
Money market funds	16,542	—	—	16,542	16,542	—
Municipal bonds	11,156	—	—	11,156	—	11,156
	$43,545	$—	$—	$43,545	$16,542	$27,003
Short-term investments:						
Commercial paper	$2,192	$—	$—	$2,192	$—	$2,192
Corporate bonds	10,887	—	(23)	10,864	—	10,864
Equity securities	123	—	(66)	57	57	—
Municipal bonds	62,373	—	(64)	62,309	—	62,309

U.S. government and agency securities	20,097	20	—	20,117	20,117	—
	$95,672	$20	$(153)	$95,539	$20,174	$75,365

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	December 31, 2015						
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value	Level 1	Level 2	Level 3
Assets:							
Cash equivalents:							
Commercial paper	$7,997	$—	$—	$7,997	$—	$7,997	$—
Municipal bonds	1,635	—	—	1,635	—	1,635	—
Money market funds	54,663	—	—	54,663	54,663	—	—
	$64,295	$—	$—	$64,295	$54,663	$9,632	$—
Short-term investments:							
Municipal bonds	$133,033	$—	$(96)	$132,937	$—	$132,937	$—
Commercial paper	5,493	—	(3)	5,490	—	5,490	—
Corporate bonds	30,488	3	(93)	30,398	—	30,398	—
U.S. government and agency securities	61,559	—	(62)	61,497	—	61,497	—
Equity securities	123	—	—	123	123	—	—
	$230,696	$3	$(254)	$230,445	$123	$230,322	$—
Liabilities:							
Current liabilities:							
Deferred payment obligations	$6,270	$3,887	$—	$2,383	$—	$—	$2,383

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

As of September 30, 2016 and December 31, 2015, approximately 88% and 87%, respectively, of the Company's marketable security investments mature within one year and 12% and 13%, respectively, mature within one to five years. As of September 30, 2016, no individual securities incurred continuous unrealized losses for greater than 12 months.

As of September 30, 2016 and December 31, 2015, the Company had short-term cost method investments of nil and $0.6 million, respectively, which were recorded at amortized cost in short-term investments in the Company's condensed consolidated balance sheets.

In connection with the Rockstar Transaction (see Note 12, "Commitments and Contingencies"), the Company received funding of $6.3 million from a syndicate participant. During the nine months ended September 30, 2016, the Company settled the loan from the syndicate participant.

Level 3 Valuation Techniques
Level 3 financial liabilities as of December 31, 2015 consisted of a repayment obligation to a third party for which determination of fair value required significant judgment and estimation. Balances categorized within Level 3 of the fair value hierarchy were analyzed each period for changes in estimates or assumptions and recorded as the Company deemed appropriate.

As of December 31, 2015, the Company used the Black-Scholes option valuation model to estimate the fair value of the deferred payment obligation entered into in the Rockstar Transaction. This model incorporated assumptions about details such as the value of underlying securities, expected terms, maturity, risk-free interest rates, as well as volatility.

A significant change in volatility and expected term could result in a significant change in fair value. The risk-free interest rate was based on the implied yield currently available on U.S. Treasury zero coupon issues with an equivalent remaining term at the measurement date. The expected volatility was calculated using the standard deviation of the underlying security's weekly returns over the estimated period of time to take to settle the liability. The expected term of the liability was determined by the estimated settlement date of the liability. Changes in the fair value were recorded in other income (expense), net in the Company's condensed consolidated statements of operations. As of September 30, 2016, the Company no longer holds any Level 3 financial assets or liabilities (see Note 12, "Commitments and Contingencies").

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5. Patent Assets, Net

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

	December 31, 2015	Additions	Disposals	September 30, 2016
Patent assets	$ 824,258	$ 71,961	$ (10,223)	$ 885,996
Accumulated amortization	(569,698)	(119,793)	10,119	(679,372)
Patent assets, net	$ 254,560			$ 206,624

The Company’s acquired patent assets relate to technologies used or supplied by companies in a variety of market sectors, including consumer electronics, e-commerce, financial services, media distribution, mobile communications, networking, semiconductors and software. The Company amortizes each acquired patent asset portfolio on a straight-line basis over its estimated economic useful life. As of September 30, 2016, the estimated economic useful lives of the Company’s patent assets generally ranged from 24 to 60 months. As of September 30, 2016, the weighted-average estimated economic useful life at the time of acquisition of all patent assets acquired since the Company’s inception was 42 months.

As of September 30, 2016, the Company expects amortization expense in future periods to be as follows (in thousands):

2016 (remainder)	$ 35,652
2017	105,361
2018	47,701
2019	14,900
2020	3,010
Total estimated future amortization expense	$ 206,624

Amortization expense related to the Company's patent assets was $40.4 million and $36.2 million for the three months ended September 30, 2016 and 2015, respectively, and $119.9 million and $104.4 million for the nine months ended September 30, 2016 and 2015, respectively.

6. Property and Equipment, Net

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

	September 30, 2016	December 31, 2015
Internal-use software	$ 7,706	$ 7,654
Leasehold improvements	2,110	1,799
Computer, equipment and software	5,166	1,387
Furniture and fixtures	935	818
Construction-in-progress	41	—
Total property and equipment, gross	15,958	11,658
Less: Accumulated depreciation and amortization	(8,773)	(6,925)
Total property and equipment, net	$ 7,185	$ 4,733

Depreciation and amortization expense related to the Company's property and equipment was $0.9 million and $0.4 million for the three months ended September 30, 2016 and 2015, respectively, and $2.2 million and $1.3 million for the nine months ended September 30, 2016 and 2015, respectively.

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7. Business Combinations

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

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

The Company’s purchase price allocation for its acquisition of Inventus is preliminary and subject to revision as additional information about fair value of assets and liabilities becomes available. Additional information that existed as of the acquisition date but at that time was unknown to the Company may become known to the Company during the remainder of the measurement period, a period not to exceed 12 months from the acquisition date.

The intangible assets acquired are amortized on a straight-line basis which reflects the pattern in which the economic benefits of the intangible assets are expected to be utilized. The goodwill recorded is primarily attributable to the Company's opportunity to expand into the litigation discovery services market and is not expected to be deductible for tax purposes. For the nine months ended September 30, 2016, the Company recorded acquisition-related costs of $1.2 million which were expensed as incurred and included in selling, general and administrative expenses in the Company's condensed consolidated statements of operations. The Company has included the financial results of Inventus in its condensed consolidated financial statements which includes revenue of $18.0 million and $47.8 million for the three and nine months ended September 30, 2016, respectively, and operating income of $2.7 million and $6.3 million for the three and nine months ended September 30, 2016, respectively.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenue	$88,461	$85,052	$254,245	$258,350
Net income	8,115	7,986	17,091	20,960
Basic net income per share	0.16	0.15	0.34	0.38
Diluted net income per share	0.16	0.14	0.33	0.38

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8. Goodwill

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

	Patent Risk Management	Discovery Services	Total
Balance as of December 31, 2015	$ 19,978	$—	$19,978
Goodwill from business acquisition	—	145,984	145,984
Foreign currency translation adjustments	—	(9,615)	(9,615)
Balance as of September 30, 2016	$ 19,978	$136,369	$156,347

The Company reviews goodwill for impairment at least annually or more frequently if events or changes in circumstances indicate that the carrying value of goodwill may not be recoverable. As of September 30, 2016, no impairment of goodwill has been identified.

9. Intangible Assets, Net

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

		September 30, 2016			December 31, 2015		
	Weighted-average Life (years)	Carrying Amount	Accumulated Amortization	Net Carrying Amount	Carrying Amount	Accumulated Amortization	Net Carrying Amount
Covenant not to compete	3.0	$1,900	$ (1,446)	$454	$1,900	$ (971)	$ 929
Proprietary data and models	3.7	2,100	(1,957)	143	2,100	(1,694)	406
Customer relationships	9.3	56,845	(4,915)	51,930	1,050	(659)	391
Trademarks	4.9	4,893	(2,254)	2,639	1,720	(1,645)	75
Developed technology	3.0	6,045	(1,528)	4,517	120	(120)	—
		$71,783	$ (12,100)	$59,683	$6,890	$ (5,089)	$ 1,801

As of September 30, 2016, the Company expects amortization expense in future periods to be as follows (in thousands):

:

2016 (remainder)	$	2,446
2017	8,938	
2018	8,409	
2019	6,551	
2020	6,434	
Thereafter	26,905	
Total estimated future amortization expense	$	59,683

Amortization expense related to the Company's intangible assets was $2.5 million and $0.4 million for the three months ended September 30, 2016 and 2015, respectively, and $7.2 million and $1.3 million for the nine months ended September 30, 2016 and 2015, respectively.

10. Accrued Liabilities

Accrued liabilities consisted of the following (in thousands):

	September 30, 2016	December 31, 2015
Accrued payroll-related expenses	$ 9,350	$ 11,105
Accrued expenses	4,203	3,737
Total accrued liabilities	$ 13,553	$ 14,842

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11. Debt

On February 26, 2016, the Company entered into a Credit Agreement (the "Credit Agreement") which provided for a $100 million five-year term facility (the "Term Facility") and a $50 million five-year revolving credit facility (the "Revolving Credit Facility"), which remains undrawn as of September 30, 2016. The Term Facility bears interest which is payable quarterly in arrears at the Company's option equal to either a base rate plus a margin ranging from 1.25% to 1.75% per annum or, at the Company's election, the one-, two-, three-, or six-month London interbank offered rate ("LIBOR") plus a margin ranging from 2.25% to 2.75% per annum, based upon the ratio of the Company's debt to consolidated EBITDA ratio. The outstanding balance on the Term Facility bore interest during the nine months ended September 30, 2016 at an average interest rate of 3.0%, which approximates fair value. The Revolving Credit Facility bears a commitment fee on undrawn balances of 0.35% to 0.45% per annum, also based upon the Company's debt to consolidated adjusted EBITDA ratio, that are expensed as incurred. The Credit Agreement contains financial covenants requiring the Company to maintain certain leverage and fixed charge ratios. The Company is compliant with these covenants as of September 30, 2016. The Credit Agreement also includes limitations on the Company's debt incurrence, dividend payments, and disposal activities.

As of September 30, 2016, the Term Facility requires principal repayments in accordance with the following schedule (in thousands):

2016 (remainder)	$1,250
2017	6,875
2018	9,375
2019	11,875
2020	18,125
2021	50,000
Long-term debt, gross	97,500
Unamortized debt issuance costs	(1,766)
Long-term debt, net	$95,734

Reported as:	
Current portion of long-term debt	$5,849
Long-term debt	89,885
Total	$95,734

12. Commitments and Contingencies

Commitments

The Company generally does not enter into long-term minimum purchase commitments. Its principal long-term commitments consist of obligations under operating leases for office space. Other than certain commitments obtained through the Company's acquisition of Inventus as shown below, there were no substantial changes to the Company’s contractual obligations or commitments during the nine months ended September 30, 2016 as compared to those presented under the heading “Commitments and Contingencies” in Note 10 of the Notes to Consolidated Financial Statements in Part II, Item 8 of the Company’s Annual Report on Form 10-K filed with the SEC on February 26, 2016.

Rent expense related to non-cancelable operating leases was $1.4 million and $0.9 million for the three months ended September 30, 2016 and 2015, respectively, net of sublease income of $0.2 million earned during each period. Rent expense related to non-cancelable operating leases was $3.8 million and $2.6 million for the nine months ended September 30, 2016 and 2015, respectively, net of sublease income of $0.5 million earned during each period.

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As of September 30, 2016, the aggregate future non-cancelable minimum lease payments from the Company's operating leases acquired through its acquisition of Inventus are as follows (in thousands):

2016	$296
2017	1,148
2018	1,135
2019	904
2020	619
Thereafter	838
Future non-cancelable minimum operating lease payments	$4,940
Less: minimum payments to be received from non-cancelable subleases	(629)
Total future non-cancelable minimum operating lease payments, net	$4,311

Through its acquisition of Inventus, the Company also acquired a three-year contractual commitment totaling $5.3 million related to its third-party discovery service software license, of which $1.8 million remains unpaid as of September 30, 2016 and will be paid within twelve months.

Deferred Payment Obligations

On December 22, 2014, the Company and RPX Clearinghouse LLC (a wholly-owned subsidiary of the Company) entered into an Asset Purchase Agreement by and among Rockstar Consortium US LP, Rockstar Consortium LLC, Bockstar Technologies LLC, Constellation Technologies LLC, MobileStar Technologies LLC, and NetStar Technologies LLC (the “Sellers”), for the purchase of substantially all of the patent assets owned or controlled by the Sellers (the “Rockstar Transaction”). In connection with the Rockstar Transaction, the Company acquired certain common stock, convertible preferred stock, and redeemable convertible preferred stock investments held by the Sellers. To fund the acquisition of these securities, the Company received funding of $6.3 million from a syndicate participant and seller financing of $5.9 million. The seller financing was settled during the year ended December 31, 2015.

The loan received from the syndicate participant bore no interest. The terms of the obligation required repayment up to the $6.3 million received only to the extent proceeds are received from the sale of the common and convertible preferred stock securities, which resulted in a difference between the funding received and the fair value of the loan. The Company elected to carry this loan at fair value and categorized it as a Level 3 instrument due to the significance of unobservable inputs developed using company-specific information to estimate the loan’s fair value. Changes in fair value are reported in other income (expense), net in the Company's condensed consolidated statements of operations. This loan was settled without payment during the nine months ended September 30, 2016 which resulted in a gain on extinguishment of $0.5 million recognized in other income (expense), net in the condensed consolidated statements of operations during the nine months ended September 30, 2016. This loan decreased from $2.4 million to nil during the nine months ended September 30, 2016 due to a $1.9 million fair value adjustment and a $0.5 million gain on extinguishment which were recognized in other income (expense), net in the condensed consolidated statement of operations.

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, 2016 or December 31, 2015.

In April 2016, Sourceprose Corporation filed a complaint in the U.S. District Court for the Western District of Texas against the Company alleging breach of an agreement with the plaintiff to purchase certain patent assets and breach of a non-disclosure agreement with plaintiff. In July 2016, the Court transferred the litigation to the U.S. District Court for the Northern District of California. The plaintiff seeks monetary damages and injunctive relief. The Company is not currently able to determine whether there is a reasonable possibility that a loss has been incurred, nor can we estimate the potential loss or range of the potential loss that may result from this litigation.

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

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

Guarantees and Indemnifications
The Company has, in connection with the sale of patent assets, agreed to indemnify and hold harmless the buyer of such patent assets for losses resulting from breaches of representations and warranties made by the Company. The terms of these indemnification agreements are generally perpetual. The maximum amount of potential future indemnification is unlimited. To date, the Company has not paid any amount to settle claims or defend lawsuits. The Company is unable to reasonably estimate the maximum amount that could be payable under these arrangements since these obligations are not capped but are conditional to the unique facts and circumstances involved. The Company had no liabilities recorded for these agreements as of September 30, 2016 or December 31, 2015. 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.

Reserves for Known and Incurred but not Reported Claims
In August 2012, the Company began offering insurance to cover certain costs of litigation brought against its insured clients. In March 2014, the Company formed a reinsurance company to assume a portion of the underwriting risk on insurance policies that the Company issues on behalf of a Lloyd's of London underwriting syndicate. As of September 30, 2016, the Company recorded a reserve of $0.8 million for known and incurred but not reported claims that represents estimated claim costs and related expenses for the policies underwritten and its portion of the underwriting risk on policies that the Company issued on behalf of the Lloyd's of London underwriting syndicate. The Company regularly reviews loss reserves using a variety of actuarial techniques and updates them as its loss experience develops.

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13. Stockholders’ Equity

Equity Plans

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

		Options Outstanding			
	Shares Available for Grant	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life in Years	Aggregate Intrinsic Value
Balance - December 31, 2015	3,159	2,340	$ 11.11		
Shares authorized[1]	2,000	—	—		
Options exercised	—	(433)	8.67		
Options forfeited/canceled	121	(121)	13.20		
Restricted stock units granted	(2,620)	—	—		
Restricted stock units forfeited	522	—	—		
Restricted stock units withheld related to net-share settlement of restricted stock units	319	—	—		
Balance - September 30, 2016	3,501	1,786	11.56	4.5	$ 2,947
Vested and exercisable - September 30, 2016		1,783	11.57	4.5	2,925
Vested and expected to vest - September 30, 2016		1,787	11.56	4.5	2,947

[1] In the first quarter of 2016, the Company reserved an additional 2.0 million shares of its common stock for future issuance under the 2011 Plan.

The aggregate intrinsic value of stock options exercised during the three months ended September 30, 2016 and 2015 was $0.5 million and $0.6 million, respectively, and $0.8 million and $6.4 million for stock options exercised during the nine months ended September 30, 2016 and 2015, respectively. The total grant date fair value of stock options vested during the three months ended September 30, 2016 and 2015 was $0.2 million and $0.8 million, respectively, and $1.2 million and $2.6 million for stock options vested during the nine months ended September 30, 2016 and 2015, respectively.

Restricted Stock Units

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

	Number of Shares	Weighted-Average Grant Date Fair Value	Aggregate Intrinsic Value
Non-vested units - December 31, 2015	2,490	$ 13.35	
Granted	2,620	10.96	
Vested	(917)	13.3	
Forfeited	(522)	13.32	
Non-vested units - September 30, 2016	3,671	11.62	$ 39,235

The total grant date fair value of RSUs vested during the three months ended September 30, 2016 and 2015 was $2.9 million and $3.7 million, respectively, and $9.0 million and $10.8 million during the nine months ended September 30, 2016 and 2015, respectively.

In October 2013, the Board of Directors approved net-share settlement for tax withholdings on RSU vesting. During the nine months ended September 30, 2016, the Company withheld issuing 319,434 shares of its common stock based on the value of the RSUs on their vesting dates as determined by the Company's closing common stock price. Total payments to taxing authorities for employees' minimum tax obligations were $3.1 million for the nine months ended September 30, 2016, and were recorded as a reduction to additional paid-in capital and reflected as a financing activity within the condensed consolidated statements of cash flows. The net-share settlements reduced the number of shares that would have otherwise been issued on the vesting date and increased the number of shares reserved for future issuance under the 2011 Plan.

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Stock-Based Compensation Related to Employees and Directors

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

PBRSUs granted during the three months ended September 30, 2016 contain service and performance conditions that affect the quantity of awards that will vest. PBRSUs granted during the nine months ended September 30, 2016 contain service, performance, and market conditions that affect the quantity of awards that will vest. PBRSUs granted during the nine months ended September 30, 2015 contain both service and performance conditions that affect the quantity of awards that will vest. During the three months ended September 30, 2016 and 2015, the Company granted 19,375 and nil PBRSUs, respectively. During the nine months ended September 30, 2016 and 2015, the Company granted 115,657 and 54,375 PBRSUs, respectively. The Company estimates the grant date fair value of PBRSUs which include market conditions using the Monte Carlo simulation model which is only applicable to the PBRSUs that contain service and market conditions granted during the nine months ended September 30, 2016. The weighted-average assumptions used to estimate the fair value of PBRSUs with market conditions and the resulting fair values are as follows:

	Nine Months Ended September 30, 2016	
Dividend yield	—	%
Risk-free rate	1.08	%
Expected volatility	38	%
Expected term - in years	4	
Grant date fair value	$ 6.28	

Stock-based compensation expense related to stock options granted to employees and directors was $0.1 million and $0.7 million for the three months ended September 30, 2016 and 2015, respectively, and $0.9 million and $2.2 million for the nine months ended September 30, 2016 and 2015, respectively. Stock-based compensation expense related to RSUs granted to employees and directors was $4.1 million and $3.7 million for the three months ended September 30, 2016 and 2015, respectively, and $12.8 million and $10.5 million for the nine months ended September 30, 2016 and 2015, respectively. Stock-based compensation expense related to PBRSUs granted to employees was $0.1 million and $0.2 million for the three month periods ended September 30, 2016 and 2015, respectively, and $0.5 million for each nine month period ended September 30, 2016 and 2015.

As of September 30, 2016, there was $0.1 million and $38.5 million of unrecognized compensation cost related to stock options and RSUs, including PBRSUs, respectively, which is expected to be recognized over a weighted-average period of 0.1 years and 2.7 years, respectively. Future grants of equity awards will increase the amount of stock-based compensation expense to be recorded.

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Stock Repurchase Program

On February 10, 2015, the Company announced that its Board of Directors had authorized a share repurchase program under which the Company is authorized to repurchase up to $75.0 million of its outstanding common stock with no expiration date from the date of authorization. In March 2016 and May 2016, the Company increased its share repurchase program by $25 million and $50 million, respectively, for a total amount authorized of $150 million. As of September 30, 2016, the Company repurchased $76.9 million of the outstanding common stock. Under the program, shares may be purchased in open market transactions, including through block purchases, through privately negotiated transactions, or pursuant to any trading plan that may be adopted in accordance with Rule 10b5-1 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The share repurchase program does not have an expiration date and may be suspended, terminated or modified at any time for any reason. The Company’s share repurchase program does not obligate it to acquire any specific number of shares. The Company repurchased shares of its common stock in the open market, which were retired upon repurchase. The purchase price for the repurchased shares is reflected as a reduction to common stock and retained earnings in the Company's condensed consolidated balance sheet. Share repurchase activity during the period presented was as follows (in thousands, except per share data):

	Shares Repurchased	Average Price per Share	Value of Shares Repurchased
Cumulative repurchase activity as of December 31, 2015	1,993	$ 13.12	$ 26,175
Repurchase activity during the period	5,022	10.11	50,752
Cumulative repurchase activity as of September 30, 2016	7,015	$ 10.97	$ 76,927

14. Income Taxes

The Company uses an estimated annual effective tax rate based upon a projection of its annual fiscal year results to measure the income tax benefit or expense recognized in each interim period. The Company’s effective tax rate, including the impact of discrete benefit items, was 36% and 38% for the three months ended September 30, 2016 and 2015, respectively, and 37% and 38% for the nine month periods ended September 30, 2016 and 2015, respectively.

The Company's 2013 through 2015 tax periods are open to examination by the Internal Revenue Service and the 2011 through 2015 tax periods are open to examination by most state tax authorities. Inventus's federal income tax return for fiscal year 2013 is currently under examination by the Internal Revenue Service and at this time, although the outcome is subject to significant uncertainty, the Company believes it has valid positions supporting its tax return and does not expect that proposed adjustments, if any, would be material to the Company's consolidated financial statements.

15. Related-Party Transactions

During the three month periods ended September 30, 2016 and 2015, four and three members, respectively, of the Company’s Board of Directors also served on the boards of directors of RPX clients. During the nine months ended September 30, 2016 and 2015, four and five members, respectively, of the Company's Board of Directors also served on the boards of directors of RPX clients. The Company recognized subscription revenue from these clients in the amount of $2.4 million and $2.3 million for the three month periods ended September 30, 2016 and 2015, respectively, and $7.3 million and $6.9 million for the nine month periods ended September 30, 2016 and 2015, respectively. The Company recognized selling, general, and administrative expenses from products and services provided by these clients of $0.2 million and $0.1 million for the three month periods ended September 30, 2016 and 2015, respectively, and $0.6 million and $0.2 million for the nine month periods ended September 30, 2016 and 2015, respectively. As of September 30, 2016 and December 31, 2015, there were $0.1 million and nil receivables, respectively, due from these clients. These transactions with related-parties were conducted on terms equivalent to

those prevailing in arm's length transactions.
16. Segment Reporting
Operating segments are components of an enterprise about which separate financial information is available. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker, or decision-making group, in deciding how to allocate resources and in assessing performance. The Company’s chief operating decision maker is its Chief Executive Officer. Prior to the acquisition of Inventus in January 2016, the Company’s Chief Executive Officer reviewed financial information presented on a consolidated basis and, as a result, the Company concluded that there was only one operating and reportable segment. Subsequent to the acquisition of Inventus (see Note 7, Business Combinations), the Company's Chief Executive Officer reviews separate financial information for the patent risk management and discovery services businesses. Therefore as of January 2016, the Company has two reportable segments: 1) patent risk management which generates its revenues primarily from membership subscriptions, premiums earned from insurance policies, and management fees for marketing, underwriting, and claim

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management and 2) discovery services which generates its revenues primarily from fees generated for data collection, hosting and processing, project management, and document review services. There are no material internal revenue transactions between these two reportable segments.

Although Adjusted EBITDA is not a measure of financial performance determined in accordance with GAAP, the Company's chief operating decision maker evaluates segment financial performance by utilizing the segment's Adjusted EBITDA because the Company believes it is a useful supplemental measure that reflects core operating performance and provides an indicator of the segment's ability to generate cash. The Company defines Adjusted EBITDA as net income exclusive of provision for income taxes, interest and other income (expense), net, stock-based compensation and related employer payroll taxes, depreciation, and amortization. There are limitations in using the Company's measures of financial performance that are not determined in accordance with GAAP and these may be different from other financial measures not determined in accordance with GAAP used by other companies. These financial measures are limited in value because they exclude certain items that may have a material impact on the Company's reported financial results. In addition, they are subject to inherent limitations as they reflect the exercise of judgment by the Company about which items are adjusted to calculate its financial measures not determined in accordance with GAAP. The presentation of financial measures not determined in accordance with GAAP should not be considered in isolation or as a substitute for or superior to financial results determined in accordance with GAAP.

Summarized financial information by segment for the three and nine months ended September 30, 2016 utilized by the Company's chief operating decision maker is as follows (in thousands):

	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2016
Patent Risk Management		
Revenue	$ 70,474	$ 203,482
Cost of revenue	41,555	123,337
Selling, general and administrative expenses	17,575	59,112
Operating income	11,344	21,033
Stock-based compensation, including related taxes	4,205	13,974
Depreciation and amortization	41,226	122,402
Adjusted EBTIDA	$ 56,775	$ 157,409
Discovery Services		
Revenue	$ 17,987	$ 47,823
Cost of revenue	9,275	24,229
Selling, general and administrative expenses	6,040	17,302
Operating income	2,672	6,292
Stock-based compensation, including related taxes	136	365
Depreciation and amortization	2,499	6,910
Adjusted EBTIDA	$ 5,307	$ 13,567
Consolidated		
Revenue	$ 88,461	$ 251,305
Cost of revenue	50,830	147,566
Selling, general and administrative expenses	23,615	76,414

Operating income	$ 14,016	$ 27,325

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2016		2015		2016		2015	
United States	$50,068	56 %	$42,352	62 %	$144,720	58 %	$139,347	64 %
Japan	11,192	13	8,921	13	29,105	12	27,406	12
Korea	5,480	6	7,290	11	19,819	8	21,259	10
Rest of world	21,721	25	9,649	14	57,661	22	31,038	14
Total revenue	$88,461	100%	$68,212	100%	$251,305	100%	$219,050	100%

The following table reconciles the Company's subtotal segment Adjusted EBITDA to consolidated net income:

	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2016
Subtotal segment adjusted EBITDA	$ 62,082	$ 170,976
Depreciation and amortization	43,725	129,312
Stock-based compensation, including related taxes	4,341	14,339
Interest and other income (expense), net	(1,250)	(994)
Provision for income taxes	4,651	9,829
Net income	$ 8,115	$ 16,502

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K filed with the Securities and Exchange Commission (“SEC”) on February 26, 2016.

This Quarterly Report on Form 10-Q contains “forward-looking statements” that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. The statements contained in this Quarterly Report on Form 10-Q that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act. Forward-looking statements are often identified by the use of words such as, but not limited to, “anticipate,” “believe,” “can,” “continue,” “could,” “estimate,” “expect,” “intend,” “will,” “plan,” “project,” “seek,” “should,” “target,” “will,” “would,” and similar expressions or variations intended to identify forward-looking statements. Forward-looking statements include statements regarding our business strategies and business model, products, benefits to our clients, future financial results and expenses, patent acquisition spending, our acquisition of Inventus, and our competitive position. These statements are based on the beliefs and assumptions of our management based on information that is currently available. Such forward-looking statements are subject to risks, uncertainties and other important factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include but are not limited to those identified below and those discussed in the section titled “Risk Factors” included in Part II, Item 1A of this Quarterly Report on Form 10-Q and elsewhere in this filing and our Annual Report on Form 10-K filed with the SEC on February 26, 2016. Furthermore, such forward-looking statements speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

Overview

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

Patent Risk Management

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.

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

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 patent risk management clients include companies that design, make or sell technology-based products and services as well as companies that use technology in their businesses.

We believe that our acquisitions of patent assets are 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 acquisitions above and beyond their subscription fees and the “net spend” represents only the net incremental investment of our own capital. During the nine months ended September 30, 2016, we completed 66 acquisitions of patent assets and our gross and net patent acquisition spend totaled $135.8 million and $71.9 million, respectively. From our inception through September 30, 2016, we have completed 373 acquisitions of patent assets with gross and net patent acquisition spend of $2.2 billion and $901.9 million, respectively.

Insuring against the costs of patent litigation is a natural extension of our core defensive patent acquisition service. In August 2012, we started to offer patent infringement liability insurance, which is a liability insurance policy for operating companies that covers certain costs associated with patent infringement lawsuits. The insurance product complements our core defensive patent acquisition service, enabling policyholders to better manage and mitigate the risk of patent litigation. In connection with an evolution in the way that we sell insurance policies, during March 2014 we formed a reinsurance company to assume a portion of the underwriting risk on insurance policies that we issue on behalf of a Lloyd’s of London underwriting syndicate. We began issuing new policies under the reinsurance model in May 2014. As of September 30, 2016, we had a total of 163 active insurance policies. The effect of the insurance policies that we have issued or assumed through our reinsurance business was not material to our results of operations or financial condition for the nine months ended September 30, 2016 or 2015.

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During the nine months ended September 30, 2016 and 2015, revenue from our patent risk management solution was $203.5 million and $219.1 million, respectively. Our patent risk management client count, which includes both clients who receive our defensive patent acquisition service and our insurance service, increased by 73 clients during the nine months ended September 30, 2016, bringing our total client network to 328 as of September 30, 2016.

Discovery Services

In January 2016, through our wholly-owned subsidiary Inventus, we began offering technology-enabled discovery services to assist leading law firms and corporate legal departments manage costs and risks related to the litigation discovery process. Our more than 1,000 discovery services clients in nearly a dozen countries benefit from our discovery services solution, which includes data hosting and backup, data processing and collection, project management, document review, and traditional document production. All of these services are designed to streamline the administration of litigation, investigations, and regulatory compliance. During the nine months ended September 30, 2016, revenue from our discovery services was $47.8 million. Certain of our discovery services operations are denominated in currencies other than the U.S. Dollar, primarily the British Pound and the European Euro, and therefore these operations are exposed to foreign exchange rate fluctuations.

Our discovery services solution focuses on the process of consolidation and organization of data into meaningful discovery information powered by a mix of third-party and proprietary software. This allows our discovery services clients to efficiently and effectively manage a portfolio of litigation discovery matters in a central location.

Key Components of Results of Operations

Revenue

Subscription revenue includes membership subscriptions to our defensive patent aggregation services, premiums earned from insurance policies, and management fees. Historically, the majority of our revenue has consisted of fees paid by our clients under subscription agreements. Subscription revenue will be positively or negatively impacted by the financial performance of our patent risk management clients since their subscription fees typically reset annually based upon their most recently reported annual financial results. Additionally, in August 2012, we launched our insurance product and started to recognize insurance premium revenue from the insurance policies that we underwrite. As the primary insurer, we had been recognizing the full insurance premium as revenue. In May 2014, we began to assume a portion of the underwriting risk on insurance policies that we issue on behalf of a Lloyd's of London underwriting syndicate, and as a result we recognize only the portion of the underwriting risk that we assume. In addition, we receive management fees for marketing, underwriting, and claims management services. Although we expect this revenue to increase as we sell more insurance policies in the future, for the nine months ended September 30, 2016 and 2015, insurance premium revenue was not material to our results of operations.

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

We recognize revenue from the sale of licenses and advisory fee income in connection with syndicated acquisitions, which we collectively refer to as fee-related revenue. In the future, we may receive other revenue and fee income from newly-introduced products and services. While we may continue to experience revenue growth on an annual basis, we do not believe that our rate of growth since inception is representative of anticipated future revenue growth.

Cost of Revenue

Cost of revenue from our patent risk management solution primarily consists of amortization expenses related to acquired patent assets. Acquired patent assets are capitalized and amortized ratably over their estimated useful lives, which typically relates to the anticipated cash flows from clients and prospects that will benefit from the transaction.

Also included in the cost of revenue from our patent risk management solution are expenses incurred to maintain our patents, prosecute our patent applications, conduct inter partes reviews and prior art searches, and amortization expense for acquired intangible assets and internally developed software. With the launch of our insurance offering in August 2012, cost of revenue from our patent risk management solution began to include premiums ceded to reinsurers and loss reserves. We began to issue new policies under the reinsurance model in May 2014 and under this model we do not cede premiums.

Our cost of revenue for the patent risk management solution is primarily driven by the amortization of previously acquired patent assets, which are typically amortized over an estimated useful life of 24 to 60 months. From time to time, we may acquire patent assets that are valuable to our clients and prospects with an estimated useful life that is significantly less than the historical weighted-average of patent assets previously acquired, resulting in increased patent asset amortization expense in periods immediately following the acquisition. Estimating the economic useful lives of our patent assets depends on various factors including whether we acquire patents or licenses to patents, and the remaining statutory life of the underlying patents, either of

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which could result in shorter amortization periods. We believe that amortization periods of patent assets to be acquired in future periods may be amortized over shorter periods than the historical weighted-average of 42 months. We expect our cost of revenue from our patent risk management solution to increase in the future as we add additional patent assets to our existing portfolio to support our existing and future clients and as our insurance business grows.

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

Selling, General and Administrative Expenses

Selling, general and administrative expenses consist of salaries and related expenses, including stock-based compensation expense, amortization related to our intangible assets, cost of marketing programs, legal costs, professional fees, travel costs, facility costs and other corporate expenses. We expect that in the foreseeable future, as we seek to serve more clients and develop new products and services, selling, general and administrative expenses will increase.

Interest and Other Income (Expense), Net

Interest and other income (expense), net consists of interest income earned on our cash, cash equivalents and short-term investments, interest expense incurred on our term debt, gains or losses due to foreign currency fluctuations, as well as changes in fair value of our deferred payment obligations.

Provision for Income Taxes

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

Critical Accounting Policies and Estimates

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

Other than the adoption of the revenue recognition policies related to the acquired discovery services solution, there have been no material changes to the Company’s significant accounting policies during the nine months ended September 30, 2016, as compared to the significant accounting policies presented under the heading “Basis of Presentation and Significant Accounting Policies” in Note 2 of the Notes to Consolidated Financial Statements in Part II, Item 8 of the Company’s Annual Report on Form 10-K filed with the SEC on February 26, 2016.

We recognize revenue from our discovery services solution in accordance with Accounting Standards Codification 605, Revenue Recognition ("ASC 605"). Under ASC 605, revenue is recognized when persuasive evidence of an arrangement exists, the related services are provided, the price is fixed or determinable, and collectability is reasonably assured. Our revenue recognition policies related to our discovery services are described in more detail in Note 2, "Basis of Presentation and Significant Accounting Policies," in Notes to Condensed Consolidated Financial Statements (unaudited) in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Recent Accounting Pronouncements

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

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Results of Operations

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenue	$88,461	$68,212	$251,305	$219,050
Cost of revenue	50,830	37,639	147,566	109,383
Selling, general and administrative expenses	23,615	18,773	76,414	57,229
Gain on sale of patent assets, net	—	—	—	(592)
Operating income	14,016	11,800	27,325	53,030
Interest and other income (expense), net	(1,250)	876	(994)	1,931
Income before provision for income taxes	12,766	12,676	26,331	54,961
Provision for income taxes	4,651	4,842	9,829	21,066
Net income	$8,115	$7,834	$16,502	$33,895

The following table sets forth our condensed consolidated statement of operations data as a percentage of revenue.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenue	100 %	100%	100 %	100 %
Cost of revenue	57	55	59	50
Selling, general and administrative expenses	27	28	30	26
Gain on sale of patent assets, net	—	—	—	—
Operating income	16	17	11	24
Interest and other income (expense), net	(1)	1	(1)	1
Income before provision for income taxes	15	18	10	25
Provision for income taxes	5	7	4	10
Net income	10 %	11 %	6 %	15 %

Revenue

Our revenue for the three months ended September 30, 2016 was $88.5 million compared to $68.2 million during the same period a year prior, an increase of $20.3 million, or 30%. Subscription revenue, which includes membership subscriptions to our defensive patent aggregation services, premiums earned from insurance policies, and management fees, for the three months ended September 30, 2016 was $62.4 million compared to $68.2 million for the three months ended September 30, 2015. The decrease in subscription revenue was primarily attributable to a decrease of $6.4 million from clients who joined our network prior to September 30, 2015 partially offset by an increase in membership fees and insurance premiums of $0.6 million from new clients who joined our network subsequent to September 30, 2015. As of September 30, 2016, our patent risk management client network increased to 328 companies as compared to 245 as of September 30, 2015, primarily attributable to the addition of insurance clients.

Discovery revenue, which includes fees generated from data collection, hosting and processing, project management, and document review services, for the three months ended September 30, 2016 was $18.0 million compared to nil in the same period a year prior as we acquired Inventus in January 2016.

Revenue for the three months ended September 30, 2016 and 2015 included fee-related revenue of $8.1 million and nil, respectively.

Our revenue for the nine months ended September 30, 2016 was $251.3 million compared to $219.1 million during the same period a year prior, an increase of $32.2 million, or 15%. Subscription revenue, which includes membership subscription services to our defensive patent aggregation services, premiums earned from insurance policies, and management fees, for the nine months ended September 30, 2016 was $192.7 million compared to $202.0 million for the nine months ended September 30, 2015. The decrease in subscription revenue was primarily attributable to a decrease of $13.1 million from clients who joined our network prior to

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September 30, 2015 partially offset by an increase in membership fees and insurance premiums of $3.8 million from new clients who joined our network subsequent to September 30, 2015.

Discovery revenue, which includes fees generated from data collection, hosting and processing, project management, and document review services, for the nine months ended September 30, 2016 was $47.8 million compared to nil in the same period a year prior as we acquired Inventus in January 2016.

Revenue for the nine months ended September 30, 2016 and 2015 included fee-related revenue of $10.7 million and $17.1 million, respectively. The decrease in fee-related revenue was primarily attributable to a success fee earned in relation to a particularly large syndicated acquisition recognized during the nine months ended September 30, 2015.

Cost of Revenue

Our cost of revenue for the three months ended September 30, 2016 was $50.8 million compared to $37.6 million during the same period a year prior, an increase of $13.2 million, or 35%. The increase was primarily attributable to the cost of revenue for discovery services of $9.3 million associated with Inventus, which we acquired in January 2016 and therefore has no comparable cost of revenue for the three months ended September 30, 2015. This increase was also attributable to a $4.2 million increase in patent amortization expense as a result of an increase in our patent assets and shorter than historical amortization periods for certain patent assets acquired subsequent to September 30, 2015. Patent assets acquired during the three months ended September 30, 2016 had a weighted-average amortization period of 28 months months compared with the historical weighted-average since our inception of 42 months. These increases in cost of revenue were partially offset by a $0.4 million decrease in costs incurred to maintain and prosecute patents and patent applications included in our portfolio, conduct inter partes reviews and prior art searches.

Our cost of revenue for the nine months ended September 30, 2016 was $147.6 million compared to $109.4 million during the same period a year prior, an increase of $38.2 million, or 35%. The increase was primarily attributable to the cost of revenue for discovery services of $24.2 million associated with Inventus, which we acquired in January 2016 and therefore has no comparable cost of revenue for the nine months ended September 30, 2015. This increase is also attributable to an $15.5 million increase in patent amortization expense as a result of an increase in our patent assets and shorter than historical amortization periods for certain patent assets acquired subsequent to September 30, 2015. Patent assets acquired during the nine months ended September 30, 2016 had a weighted-average amortization period of 27 months compared with the historical weighted-average since our inception of 42 months. These increases are partially offset by a $1.4 million decrease in expenses incurred to conduct inter partes reviews and prior art searches.

Selling, General and Administrative Expenses

Our selling, general and administrative expenses for the three months ended September 30, 2016 were $23.6 million compared to $18.8 million during the same period a year prior, an increase of $4.8 million, or 26%. The increase was primarily due to discovery services selling, general, and administrative expenses of $6.0 million associated with Inventus which we acquired in January 2016 and therefore has no comparable selling, general, or administrative expenses for the three months ended September 30, 2015. This was partially offset by decreases in personnel-related costs in the patent risk management business primarily attributable to decreasing our headcount.

Our selling, general and administrative expenses for the nine months ended September 30, 2016 were $76.4 million compared to $57.2 million during the same period a year prior, an increase of $19.2 million, or 34%. The increase was primarily due to discovery services selling, general, and administrative expenses of $17.3 million associated with Inventus which we acquired in January 2016 and therefore has no comparable selling, general, or administrative expenses for the nine months ended September 30, 2015. The increase was also due to $1.9 million of other selling, general and administrative expenses incurred in relation to our acquisition of Inventus and $0.6 million incurred for other general corporate expenses. These increases in selling, general, and administrative expenses were partially offset by a $0.6 million decrease in personnel-related costs in the patent risk management business primarily attributable to decreasing our headcount.

Interest and Other Income (Expense), Net

Our interest and other expense, net for the three months ended September 30, 2016 was $1.3 million compared to interest and other income, net of $0.9 million during the same period a year prior, a decrease of $2.2 million. The decrease was primarily due to $0.9 million of interest expense on our term debt, $0.7 million decrease in fair value adjustments on our deferred payment obligations, and $0.7 million of realized and unrealized foreign currency losses.

Our interest and other expense, net for the nine months ended September 30, 2016 was $1.0 million compared to interest and other income, net of $1.9 million during the same period a year prior, a decrease of $2.9 million. The decrease was primarily due to $2.2 million of interest expense on our term debt, $1.7 million of realized and unrealized foreign currency losses which were partially offset by a $1.1 million increase in fair value adjustments and gains on extinguishment on our deferred payment obligations.

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Provision for Income Taxes

Our provision for income taxes was $4.7 million and $4.8 million for the three months ended September 30, 2016 and 2015. Our effective tax rate, including the impact of discrete benefit items, was 36% and 38% for the three months ended September 30, 2016 and 2015.

Our provision for income taxes was $9.8 million and $21.1 million for the nine months ended September 30, 2016 and 2015. Our effective tax rate, including the impact of discrete benefit items, was 37% and 38% for the nine month periods ended September 30, 2016 and 2015, respectively.

Liquidity and Capital Resources

We have financed substantially all of our operations and patent asset acquisitions through subscription and other fees collected from our clients, patent-seller financing, the sale of equity securities, and from borrowing through term loan facilities. As of September 30, 2016, we had $87.2 million of cash and cash equivalents and $95.5 million in short-term investments. On January 22, 2016, we paid consideration of $232 million in cash, net of working capital adjustments, at the closing of the Inventus acquisition. On February 26, 2016, we entered into a credit agreement for a $100 million five-year term facility and a $50 million five-year revolving credit facility. As of September 30, 2016, the revolving credit facility remains undrawn. We believe our existing cash, cash equivalents and short-term investments will be sufficient to meet our working capital and capital expenditure needs for the foreseeable future. Our future capital needs will depend on many factors, including, among other things, our acquisition of patent assets, addition and renewal of client membership agreements, growth of our insurance and discovery services businesses and development of new products and services. We may experience an increased level of patent acquisition spending as our business grows. We expect our cash used in investing activities to increase in the future as we acquire additional patent assets. We expect our cash used in financing activities to increase in the future as we execute our stock repurchase program by purchasing RPX shares. Additionally, we may enter into potential investments in, or acquisitions of, complementary businesses which could require us to seek additional debt or equity financing. Additional funds may not be available on terms favorable to us or at all.

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

	Nine Months Ended September 30,	
	2016	2015
Net cash provided by operating activities	$119,799	$138,532
Net cash used in investing activities	(171,008)	(110,331)
Net cash provided by (used in) financing activities	43,685	(1,652)
Foreign-currency effect on cash and cash equivalents	(291)	—
Net increase (decrease) in cash and cash equivalents	$(7,815)	$26,549

Cash Flows from Operating Activities

Cash provided by operating activities for the nine months ended September 30, 2016 was $119.8 million, consisting of adjustments for non-cash items of $139.7 million, changes in working capital and non-current assets and liabilities of $36.4 million and net income of $16.5 million. Non-cash adjustments to net income primarily consisted of $129.3 million of depreciation and amortization, $14.1 million of stock-based compensation, an unrealized loss of $2.0 million due to foreign currency fluctuations, $1.6 million of amortization of premium on investments, $0.9 million of other cash movements, and $0.3 million realized loss on our sale of short-term investments, partially offset by $6.0 million net increase in our deferred taxes, $1.9 million of fair value adjustments on our deferred payment obligations and $0.5 million gain on extinguishment of our deferred payment obligation. The change in working capital and non-current assets and liabilities resulted primarily from a $13.1 million decrease in deferred revenue, an increase in our prepaid expenses and other assets of $11.2 million, a $8.2 million increase in accounts receivable, a $3.7 million decrease in our accrued and other liabilities, and a $0.3 million decrease in accounts payable.

Cash provided by operating activities for the nine months ended September 30, 2015 was $138.5 million, consisting of adjustments for non-cash items of $121.3 million, changes in working capital and non-current assets and liabilities of $16.7 million and net income of $33.9 million. Non-cash adjustments to net income primarily consisted of $107.0 million of depreciation and amortization, $13.1 million of stock-based compensation, and $4.8 million of amortization of premium on investments, offset by a reduction of $1.4 million due to excess tax benefit from stock-based compensation, $1.3 million of fair value adjustments on our deferred payment obligations, a $0.6 million gain on the sale of patent assets, and a $0.4 million net increase in our deferred taxes. The change in working capital and non-current assets and liabilities resulted primarily from a a $18.9 million decrease in deferred revenue, a $9.8 million increase in prepaid expenses and other assets and a $2.8 million decrease in our accrued and other liabilities offset by a $14.1 million decrease in accounts receivable and a $0.7 million increase in accounts payable. The decrease in accounts receivable was due to $206.5 million in cash collections partially offset by billings to new and existing clients of $192.4 million. The

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decrease in deferred revenue was due to revenue recognized during the period of $202.0 million partially offset by $183.1 million in billings to new and existing clients. 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, 2016 was $171.0 million, of which $228.5 million was used for the acquisition of Inventus, net of cash received, $71.0 million was used to acquire patent assets, and $3.0 million was used to acquire property and equipment, partially offset by $131.0 million net sales and maturities of short-term investments primarily used to fund the acquisition of Inventus, and a $0.4 million decrease in our restricted cash balances.

Cash used in investing activities for the nine months ended September 30, 2015 was $110.3 million, of which $84.1 million was used to acquire patent assets, $22.7 million represented net purchases of short-term investments, $2.5 million was used for an acquisition of other assets, $1.6 million was used to acquire property and equipment, and $0.4 million was used for the final payment of the acquisition of DCML Services Corporation, partially offset by $0.7 million in proceeds from the sale of patent assets and $0.3 million decrease in restricted cash.

Cash Flows from Financing Activities

Cash provided by financing activities for the nine months ended September 30, 2016 was $43.7 million, of which $100.0 million represented proceeds from the issuance of long-term debt and $3.7 million was received from the proceeds of stock option exercises, which were partially offset by $50.8 million used to repurchase our common stock under our share repurchase program, $3.1 million used in taxes paid related to net-share settlements of restricted stock units, payments of principal on our long-term debt of $2.5 million, and $2.0 million for payments of issuance costs related to our long-term debt.

Cash used in financing activities for the nine months ended September 30, 2015 was $1.7 million, of which $9.4 million was used to repurchase our common stock under our share repurchase program, $3.7 million used in taxes paid related to net-share settlements of restricted stock units, and $0.9 million used for repayments of principal on deferred payment obligations, partially offset by $6.3 million of proceeds from deferred payment obligations, $4.6 million of proceeds from the exercise of stock options and other common stock issuances and $1.4 million excess tax benefit from stock-based compensation.

Contractual Obligations and Commitments

Commitments

We generally do not enter into long-term minimum purchase commitments. Our principal long-term commitments consist of obligations under operating leases for office space. Other than certain commitments obtained through our acquisition of Inventus as shown below, there were no substantial changes to our contractual obligations and commitments during the nine months ended September 30, 2016 as compared to our contractual obligations and commitments presented under the heading “Contractual Obligations and Commitments” in Part II, Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” or the heading “Commitments and Contingencies” in Note 10 of the Notes to Consolidated Financial Statements in Part II, Item 8 of our Annual Report on Form 10-K filed with the SEC on February 26, 2016.

The aggregate future non-cancelable minimum lease payments from the operating leases acquired through our acquisition of Inventus are as follows as of September 30, 2016 (in thousands):

2016	296
2017	1,148
2018	1,135
2019	904
2020	619

Thereafter	838
Future non-cancelable minimum operating lease payments	$4,940
Less: minimum payments to be received from non-cancelable subleases	(629)
Total future non-cancelable minimum operating lease payments, net	$4,311

Through our acquisition of Inventus, we also acquired a three year contractual commitment totaling $5.3 million related to its third-party discovery service software license, of which $1.8 million remains unpaid as of September 30, 2016 and will be paid within twelve months.

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Debt

On February 26, 2016, we entered into the Credit Agreement which provided for the Term Facility and the Revolving Credit Facility. As of September 30, 2016, the total balance outstanding on the Term Facility is $97.5 million, and the Revolving Credit Facility remains undrawn. Our debt facilities and repayment schedule are described in more detail in Note 11, "Debt," in Notes to Condensed Consolidated Financial Statements (unaudited) in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Issuer Purchases of Equity Securities

In February 2015, our Board of Directors authorized the repurchase of up to $75.0 million of our outstanding shares of common stock. In March and May 2016, we increased our share repurchase program by $25 million and $50 million, respectively, for a total amount authorized of $150 million. As part of the share repurchase program, shares may be purchased in open market transactions, including through block purchases, through privately negotiated transactions, or pursuant to any trading plan that may be adopted in accordance with Rule 10b5-1 of the Exchange Act. The timing, manner, price and amount of any repurchases will be determined in our discretion and will depend on factors such as cash generation from operations, other cash requirements, economic and market conditions, stock price and legal and regulatory requirements. The share repurchase program does not have an expiration date and may be suspended, terminated or modified at any time for any reason. The repurchase program does not obligate us to acquire any specific number of shares, and all open market repurchases will be made in accordance with Exchange Act Rule 10b-18, which sets certain restrictions on the method, timing, price and volume of open market stock repurchases. As of September 30, 2016, we had repurchased an aggregate of 7.0 million shares of common stock in the open market for $76.9 million under the share repurchase program.

Off Balance Sheet Arrangements

At September 30, 2016, we did not have any relationships with unconsolidated entities or financial partnerships, such as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance-sheet arrangements or other contractually narrow or limited purposes.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.
Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates. Our market risk exposure is primarily a result of fluctuations in foreign currency exchange rates and interest rates. We do not hold or issue financial instruments for trading purposes.

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

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

As of September 30, 2016, the Company had an outstanding term facility with a five-year maturity with an aggregate carrying amount of $100 million, which bears interest at the Company's option equal to either a base rate plus a margin ranging from 1.25% to 1.75% per annum LIBOR plus a margin ranging from 2.25% to 2.75% per annum, based upon the ratio of the Company's debt to consolidated EBITDA ratio. A hypothetical 100 BPS increase or decrease in LIBOR would increase or decrease the interest expense on our term facility by approximately $0.6 million for the nine months ended September 30, 2016.

We had cash, cash equivalents and short-term investments of $182.7 million as of September 30, 2016. Our cash balances deposited in U.S. banks are non-interest bearing and insured up to the Federal Deposit Insurance Corporation (“FDIC”) limits. Cash equivalents consist primarily of commercial paper, institutional money market funds, and municipal bonds denominated primarily in U.S. Dollars. Interest rate fluctuations affect the returns on our invested funds.

As of September 30, 2016, our short-term investments of $95.5 million were primarily invested in municipal and corporate bonds maturing between 90 days and 12 months, U.S. government and agency securities, commercial paper, and equity securities. As of September 30, 2016, our investments were primarily classified as available-for-sale and, consequently, were recorded at fair value in the condensed consolidated balance sheets with unrealized gains or losses reported as a separate component of stockholders’ equity. We review our investments for impairment when events and circumstances indicate that a decline in the fair value of an asset below its carrying value is other-than-temporary. As of September 30, 2016, we had not recorded any impairment charges related to our investments in the condensed consolidated statement of operations.

A hypothetical change in our interest rates of 10% during the nine months ended September 30, 2016 would not have had a material impact on the fair value of our investments.
Item 4. Controls and Procedures.
Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2016. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as

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of September 30, 2016, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, the Company’s disclosure controls and procedures were effective at the reasonable assurance level.

Internal Control over Financial Reporting

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the three months ended September 30, 2016 which were identified in connection with management's evaluation required by Rule 13a-15 and 15d-15 under the Exchange Act that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings.
Refer to Note 12, “Commitments and Contingencies,” in Notes to Condensed Consolidated Financial Statements (unaudited) in Part I, Item 1 of this Quarterly Report on Form 10-Q, which is hereby incorporated by reference.
Item 1A. Risk Factors.
Investing in our common stock involves a high degree of risk. You should consider carefully the risks and uncertainties described below before making a decision to buy our common stock. If any of the following risks actually occur, our business, financial condition, results of operations or growth prospects could be harmed. In that case, the trading price of our common stock could decline and you could lose all or part of your investment in our common stock. The risks described below are not the only risks facing us. Risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition, operating results, and growth prospects.

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

In addition to the factors described above and elsewhere in this Item 1A, other factors that may affect our operating results include:
- our lengthy and unpredictable membership sales cycle, including delays in potential clients’ decisions whether to subscribe to our solution;
- changes in our subscription fee rates or changes in our own pricing and discounting policies or those of our competitors;
- lower subscription fees from clients whose annual subscription fees decrease due to declining operating income or revenue of such clients or the effects of changes in foreign exchange rates;
- 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;
- the addition or loss of discovery services clients and projects which are difficult to predict and may result in material changes in quarterly revenue and costs;
- decreases in our clients’ and prospective clients’ costs of litigating patent infringement claims;
- losses incurred as a result of claims made on insurance policies underwritten or assumed by us;
- non-renewals from existing clients for any reason;
- loss of clients, including through acquisitions or consolidations;
- 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 the accounting treatment associated with our acquisitions of patent assets, how we amortize those patent assets and how we recognize revenue under subscription agreements;
- our acquisition of patent assets with a shorter estimated useful life that increases our near-term patent asset amortization expense and decreases our earnings;
- our inability to effectively develop and implement new solutions that meet client requirements in a timely manner;

- increases in the prices we need to pay to acquire patent assets;
- increases in operating expenses, including those attributable to additional headcount, the costs of new business initiatives, and our acquisition of Inventus;
- other matters related to our acquisition of Inventus and the expansion of our business into discovery management;
- our inability to retain key personnel;

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- 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;
- outstanding debt service obligations and repayment thereof; and
- adverse economic conditions in the industries that we serve, particularly as they affect the intellectual property risk management and/or litigation budgets of our existing or potential clients.

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

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

Our limited operating history makes it difficult to evaluate our current business and future prospects, and potential clients may have concerns regarding the effectiveness of our business model in the future. If companies do not continue to subscribe to our solution, our business and operating results will be adversely affected.
We acquired our first patent assets in September 2008, sold our first membership in October 2008, and sold our first insurance policy in August 2012. In addition, we acquired Inventus and its litigation discovery services business in January 2016. The litigation discovery services business is a new business for us. Therefore, we have not only a limited operating history, but also a limited track record in executing our business model. Our future success depends on acceptance of our solutions by companies we target to become clients and successfully integrating our acquisition

of Inventus. Our efforts to sell our products to new and existing clients may not continue to be successful. We evaluate our business model from time to time in order to address the evolving needs of our clients and prospective clients, particularly in an industry that continues to develop and change. Our limited operating history may also make it difficult to evaluate our current business and future prospects. We have encountered and will continue to encounter risks and difficulties frequently experienced by companies in rapidly changing industries. If we do not manage these risks successfully, our business and operating results will be adversely affected.

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

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

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

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 depends on clients renewing their subscription agreements, and we do not have an adequate operating history to predict the rate of membership renewals. Any significant decline in our membership renewals could harm our operating results.
Our clients have no obligation to renew their subscriptions after the expiration of their initial membership period. We have limited historical data with respect to rates of subscription renewals, so we cannot accurately predict renewal rates. As of September 30, 2016, the weighted-average term of our subscription agreements with our current clients since the inception of those agreements was 2.7 years. As our overall membership base grows, we expect our rate of client renewals to decline compared to our historical rate. Our clients may choose not to renew their memberships or, if they do renew, may choose to do so for shorter terms or seek a reduced subscription fee. Many of our subscription agreements provide for automatic one-year renewal periods. As a result, as more of our clients are in renewal periods, the weighted-average term of our subscription agreements has decreased and may continue to decrease further. If our clients do not renew their subscriptions or renew for shorter terms or if we allow them to renew at reduced

subscription fees, our revenue may decline and our business may be adversely affected.

Upon initial subscription, our clients receive a term license for the period of their membership to substantially all of the patent assets in our portfolio at the time of subscription. In addition, clients receive term licenses to substantially all of the patent assets we acquire during the period of their membership. Our subscription agreements also typically include a vesting provision that converts a client's term licenses into perpetual licenses on a delayed, rolling basis as long as the company remains a client. Accordingly, clients who continue to subscribe to our 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 to all patent assets they believe are materially relevant to their businesses.

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

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

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

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

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

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

- use of substantial portions of our available cash to consummate the acquisition.

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

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

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

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

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

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

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

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

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

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occur, some or all of the patent assets we have acquired may become less valuable or obsolete before we have had the opportunity to obtain significant value from those assets.

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

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

We may not be able to compete effectively against others to attract new clients or acquire patent assets. Any failure to compete effectively could harm our business and results of operations.
In our efforts to attract new clients and retain existing clients, we compete primarily against established patent risk management strategies employed by those companies. Companies can choose from a variety of other strategies to attempt to manage their patent risk, including internal buying or licensing programs, cross-licensing arrangements, patent-buying consortiums or other patent-buying pools and engaging legal counsel to defend against patent assertions. As a result, we spend considerable resources educating our existing and prospective clients on the potential benefits of our solution and the value and cost savings it may provide.

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

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

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

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

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

New legislation, regulations or court rulings related to enforcing patents could reduce the value of our solution to clients or potential clients and harm our business and operating results.
If Congress, the U.S. Patent and Trademark Office or courts implement additional legislation, regulations or rulings that impact the patent enforcement process or the rights of patent holders, these changes could negatively affect the operating results and business model for NPEs. This, in turn, could reduce the value of our solution to our current and potential clients. For example, limitations on the ability to bring patent enforcement claims, limitations on potential liability for patent infringement, lower evidentiary standards and new procedures for invalidating patents, increased difficulty for parties making patent assertions to obtain injunctions, reductions in the cost to resolve patent disputes and other similar developments could negatively affect an NPE’s ability to assert its patent rights successfully, decrease the revenue associated with asserting or licensing an NPE’s patent rights and increase the cost or risk of bringing patent enforcement actions. As a result, assertions and the threat of assertions by NPEs may decrease. If this occurs, companies may seek to resolve patent claims on an individual basis and be less willing to subscribe to our 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 on our business and operating results.

If we are not perceived as a trusted defensive patent aggregator, our ability to gain wide market acceptance will be harmed, and our operating results could be adversely affected.
Our reputation, which depends on earning and maintaining the trust of existing and potential clients, is critical to our business. Our reputation is vulnerable to many threats that can be difficult or impossible to control and costly or impossible to remediate. For our business to be successful, we must continue to educate potential clients about our role as a trusted intermediary in the patent market. If our reputation is harmed, we may have more difficulty attracting new clients and retaining existing clients, and our operating results could be adversely affected.

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

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. For example, in June 2014 we acquired

DCML Services Corporation, a provider of data, intelligence and consulting on NPEs.

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

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We plan to continue to increase our operating expenses to support and 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 develop new solutions. For example, in March 2014 we formed a reinsurance company to bear some underwriting risk on insurance policies that we issue on behalf of a Lloyd's of London underwriting syndicate. We began placing new policies under the reinsurance model in May 2014. In January 2016 we acquired Inventus and expanded our business into the litigation discovery services market, which is a new business for us. Developing and offering these new solutions may cause us to incur substantial additional operating expenses. Our efforts to develop this and other new solutions will result in an increase in our operating expenses with no assurance that such solutions will result in additional revenue that is sufficient to offset the additional expenses we incur.

We also plan to incur additional operating expenses as we hire new personnel. Because we intend to continue to hire, we expect our operating expenses to increase. If we are not successful in generating additional revenue that is sufficient to offset these operating expense increases, our operating results may be harmed.

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

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

Interpretations of current laws and the passage of future laws could harm our business and operating results.
Because of our presence in an emerging industry, the application to us of existing United States and foreign laws is unclear. Many laws do not contemplate or address the specific issues associated with our patent risk management 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 or changed in the future, including in the United Kingdom as a result of Brexit. Since a significant portion of the regulatory framework in the United Kingdom is derived from EU directives and

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regulations, Brexit could materially affect the regulatory regime in the United Kingdom. Changes in laws and regulations regarding data protection, privacy, network security, or encryption may affect our discovery management solution. 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.

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, 2016, our 10 highest revenue-generating clients accounted for approximately 28% 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 one of these clients decline, our revenue may correspondingly decrease and our operating results may be adversely affected.

Any failure to maintain or protect our patent assets or other intellectual property rights could impair our ability to attract or retain clients and maintain our brand and could harm our business and operating results.
Our business is dependent on our ability to acquire patent assets that are valuable to our existing and potential clients. Following the acquisition of patent assets, we expend significant time and resources to maintain the effectiveness of those assets by paying maintenance fees and making filings with the United States Patent and Trademark Office. In some cases, the patent assets we acquire include patent applications which require us to invest resources to prosecute the applications with the United States Patent and Trademark Office. If we fail to maintain or prosecute our patent assets properly, the value of those assets to our clients would be reduced or eliminated, and our business would be harmed.

If the Inventus security measures are breached, our discovery services solution may be perceived as not being secure, clients may curtail or stop using our discovery services, and we may incur significant legal and financial exposure.
We process, store, and transmit large amounts of data, including personal information, for our discovery services clients, and a security breach would expose us to a risk of loss of this information, litigation, and potential liability. Because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently and often are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures.

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

We are dependent on our management team, and the loss of any key member of this team may prevent us from implementing our business plan, which could harm our future growth and operating results.
Our success depends largely upon the continued services of our executive officers and other key personnel. We do not have employment agreements with any of our executive officers or other key management personnel that require them to remain our employees. Therefore, they could terminate their employment with us at any time without penalty. We

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

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

motivated personnel, our reputation could suffer, and our business, financial condition and results of operations could be adversely affected.

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

Ensuring that we have internal financial and accounting controls and procedures adequate to produce accurate financial statements on a timely basis is a costly and time-consuming effort that needs to be re-evaluated frequently. We have in the past discovered, and may in the future discover, areas of our internal financial and accounting controls and procedures that need improvement. The Sarbanes-Oxley Act of 2002 requires, among other things, that we maintain effective internal control over financial reporting and disclosure controls and procedures. In particular, we must perform system and process evaluation and testing of our internal control over financial reporting to allow management and our independent registered public accounting firm to report on the effectiveness of our internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act of 2002. Our compliance with Section 404 requires that we incur substantial accounting expense and expend significant management time on compliance-related issues. While neither we nor our independent registered public accounting firm have identified deficiencies in our internal control over financial reporting that are deemed to be material weaknesses, there can be no assurance that material weaknesses will not subsequently be identified. During the audit of the financial statements of our recently-acquired, wholly-owned subsidiary Inventus for the year ended December 31, 2015, we concluded the subsidiary's controls were not effectively designed and did not operate at the appropriate level of precision to record the valuation of deferred tax assets in the appropriate period, resulting in the restatement of Inventus's consolidated financial statements for the year ended December 31, 2014. Inventus's management concluded that this control deficiency constituted a material weakness as of December 31, 2015. If we are unable to effectively remediate control deficiencies which are identified or are otherwise unable to maintain adequate internal controls over Inventus's financial reporting in the future, we may not be able to prepare reliable financial statements and comply with our reporting obligations on a timely basis, which could materially adversely affect our business and subject us to legal and regulatory action.

Global economic conditions may adversely affect demand for our 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 and may continue to experience weak economic conditions. In particular, the economics of countries in Europe have been experiencing weakness associated with high sovereign debt levels, weakness in the banking sector, and uncertainty over the future of the Euro zone, including instability surrounding Brexit. Uncertainty about global economic conditions poses a risk as businesses may postpone spending in response to tighter credit, negative financial news and declines in income or asset values. This response could have a material negative effect on the demand for our 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.

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

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

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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, which could have an adverse effect on our business and financial condition.

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

On February 26, 2016, we entered into the Credit Agreement which provided for the Term Facility the Revolving Credit Facility. As of September 30, 2016, the total balance outstanding on the Term Facility is $97.5 million, and the Revolving Credit Facility remains undrawn.

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

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

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

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

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

Reinsurance coverage may not be available to us in the future at commercially reasonable rates or at all.
As of January 1, 2015, we had secured quota share reinsurance from third party reinsurers for 42% of the risk underwritten through our risk retention group and 40% of the risk underwritten for our insurance company business partner. The availability and cost of reinsurance that we purchase are subject to prevailing market conditions that are beyond our control. No assurances can be made that reinsurance will remain continuously available to us in amounts that we consider sufficient and at rates that we consider acceptable, which would cause us to increase the amount of risk we retain, reduce the amount of business we underwrite or look for alternatives to reinsurance. This, in turn, could have a material adverse effect on our financial condition or results of operations.

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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 and on our operating results.

Risks Related to Ownership of Our Common Stock

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In February 2015, our Board of Directors approved a share repurchase program of up to $75 million. In March 2016 and May 2016, our Board of Directors further increased the amount authorized to repurchase by $25 million and $50 million, respectively, to a total authorized amount to repurchase of $150 million. The timing and actual number of shares repurchased will depend on a variety of factors including price, corporate and regulatory requirements, an assessment by management and our Board of Directors of cash availability and other market conditions. The program may be suspended or discontinued at any time without prior notice. Repurchases pursuant to our stock repurchase program could affect the price of our common stock and increase its volatility. The existence of our stock repurchase program could also cause the price of our common stock to be higher than it would be in the absence of such a program and could potentially reduce the market liquidity for our common stock. There can be no assurance that any stock repurchases will enhance stockholder value because the market price of our common stock may decline below the levels at which we repurchased such shares. Any failure to repurchase shares after we have announced our intention to do so may negatively impact our reputation and investor confidence in us and may negatively impact our stock price. Although our stock repurchase program is intended to enhance long-term stockholder value, short-term stock price fluctuations could reduce the program's effectiveness.

We do not currently intend to pay dividends on our common stock in the foreseeable future, and consequently, your ability to achieve a return on your investment will depend on appreciation in the price of our common stock.
We have never declared or paid cash dividends on our common stock and do not anticipate paying any cash dividends to holders of our common stock in the foreseeable future. Consequently, investors must rely on sales of their common stock after

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price appreciation, which may never occur, as the only way to realize any future gains on their investments. There is no guarantee that shares of our common stock will appreciate in value or even maintain the price at which our stockholders have purchased their shares.

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

Stock repurchase activity during the three months ended September 30, 2016 was as follows:

Period Ended	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Approximate Dollar Value that May Yet be Purchased Under the Programs [1]
July 31, 2016	542,333	$ 9.75	542,333	$ 79,464,790
August 31, 2016	268,707	10.60	268,707	76,616,706
September 30, 2016	338,192	10.48	338,192	73,072,454
	1,149,232		1,149,232	

[1] On February 10, 2015, the Company announced that its Board of Directors has authorized a share repurchase program under which the Company is authorized to repurchase up to $75.0 million of its outstanding common stock with no expiration date from the date of authorization. In March 2016 and May 2016, the Company increased its share repurchase program by $25 million and $50 million, respectively, for a total amount authorized of $150 million. As of September 30, 2016, the Company repurchased $76.9 million of the outstanding common stock. Under the program, shares may be repurchased in privately negotiated and/or open market transactions, including under plans complying with Rule 10b5-1 under the Exchange Act. The Company’s share repurchase program does not obligate it to acquire any specific number of shares.

Item 3. Defaults Upon Senior Securities.

Not applicable.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

Not applicable.

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Item 6. Exhibits.

Exhibit Number	Exhibit Title	Incorporated by Reference				Provided Herewith
		Form	File No.	Exhibit No.	Filing Date	
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) or 15(d)-14(a) of the Securities Exchange Act of 1934 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
31.2	Certification of Chief Financial Officer Pursuant to Rule 13-14(a) or 15(d)-14(a) of the Securities Exchange Act of 1934 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
101.INS	XBRL Instance Document					X
101.SCH	XBRL Taxonomy Extension Schema Document					X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document					X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document					X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document					X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document					X

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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 4, 2016	By:	/s/ JOHN A. AMSTER John A. Amster Chief Executive Officer (Principal Executive Officer)
Date:	November 4, 2016	By:	/s/ ROBERT H. HEATH Robert H. Heath Chief Financial Officer (Principal Financial Officer)