SECURITIES & EXCHANGE COMMISSION EDGAR FILING

ACACIA RESEARCH CORP

Form: 10-Q

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2019
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: 1-37721

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acacia RESEARCH CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE **(State or other jurisdiction of incorporation or organization)**	**95-4405754** **(I.R.S. Employer Identification No.)**

4 Park Plaza, Suite 550, Irvine, California 92614
(Address of principal executive offices, Zip Code)

(949) 480-8300
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	ACTG	The Nasdaq Stock Market, LLC

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). ☒ Yes ☐ No

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

Large accelerated filer ☐	Accelerated filer ☒
Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☒
	Emerging growth company ☐

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

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

As of August 1, 2019, 50,132,871 shares of the registrant's common stock, $0.001 par value, were issued and outstanding.

ACACIA RESEARCH CORPORATION

FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED
JUNE 30, 2019

INDEX

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q for the three months ended June 30, 2019, or this Report, contains forward-looking statements within the meaning of the federal securities laws, which statements are subject to substantial risks and uncertainties. These forward-looking statements are intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact included in this Report, or incorporated by reference into this Report, are forward-looking statements. Throughout this Report, we have attempted to identify forward-looking statements by using words such as “may,” “believe,” “will,” “could,” “project,” “anticipate,” “expect,” “estimate,” “should,” “continue,” “potential,” “plan,” “forecasts,” “goal,” “seek,” “intend,” “predict,” other forms of these words or similar words or expressions or the negative thereof, although not all forward-looking statements contain these terms. Such statements address future events and conditions concerning, among other things, intellectual property, or IP, acquisition and development, licensing and enforcement activities, other related business activities, capital expenditures, earnings, litigation, regulatory matters, markets for our services, liquidity and capital resources and accounting matters. Actual results in each case could differ materially from those anticipated in such statements by reason of factors such as our ability to invest in new technologies and patents, future global economic conditions, changes in demand for our services, legislative, regulatory and competitive developments in markets in which we and our subsidiaries operate, results of litigation and other circumstances affecting anticipated revenues and costs.

We have based our forward-looking statements on management’s current expectations and projections about trends affecting our business and industry and other future events. Although we do not make forward-looking statements unless we believe we have a reasonable basis for doing so, we cannot guarantee their accuracy. Forward-looking statements are subject to substantial risks and uncertainties that could cause our future business, financial condition, results of operations or performance to differ materially from our historical results or those expressed or implied in any forward-looking statement contained in this Report. Some of the risks and uncertainties that may cause actual results to differ from those expressed or implied in the forward-looking statements are described in “Risk Factors” included in Part II, Item1A of this Report on Form 10-Q, and in “Risk Factors” included in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2018, filed with the Securities and Exchange Commission, or the SEC, on March 15, 2019, as amended by Amendment No. 1 to Form 10-K on Form 10-K/A, filed with the SEC on April 30, 2019, or our Annual Report, as well as in our other public filings with the SEC. In addition, actual results may differ as a result of additional risks and uncertainties of which we are currently unaware or which we do not currently view as material to our business.

The information contained in this Quarterly Report on Form 10-Q is not a complete description of our business or the risks associated with an investment in our common stock. We urge you to carefully review and consider the various disclosures made by us in this report and in our other reports filed with the SEC. You should read this Report in its entirety, together with the documents that we file as exhibits to this Report and the documents that we incorporate by reference into this Report, with the understanding that our future results may be materially different from what we currently expect. The forward-looking statements we make speak only as of the date on which they are made. We expressly disclaim any intent or obligation to update any forward-looking statements after the date hereof to conform such statements to actual results or to changes in our opinions or expectations, except as required by applicable law or the rules of The NASDAQ Stock Market, LLC. If we do update or correct any forward-looking statements, investors should not conclude that we will make additional updates or corrections.

We qualify all of our forward-looking statements by these cautionary statements.

PART I--FINANCIAL INFORMATION

Item 1. Financial Statements

ACACIA RESEARCH CORPORATION
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)

	June 30, 2019	December 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	$ 63,487	$ 128,809
Trading securities - debt	90,482	33,642
Trading securities - equity	10,934	3,012
Accounts receivable	15,308	32,884
Prepaid expenses and other current assets	3,289	3,125
Total current assets	183,500	201,472
Investment at fair value (Note 5)	9,070	7,459
Other investments (Note 5)	–	8,195
Patents, net of accumulated amortization	9,534	6,587
Other non-current assets	1,658	236
Total assets	$ 203,762	$ 223,949
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 9,461	$ 8,347
Royalties and contingent legal fees payable	10,518	22,688
Other current liabilities	35	–
Total current liabilities	20,014	31,035
Other liabilities	2,131	1,674
Total liabilities	22,145	32,709
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Preferred stock, par value $0.001 per share; 10,000,000 shares authorized; no shares issued or outstanding	–	–
Common stock, par value $0.001 per share; 100,000,000 shares authorized; 50,132,871 and 49,639,319 shares issued and outstanding as of June 30, 2019 and December 31, 2018, respectively	50	50
Treasury stock, at cost, 2,919,828 shares as of June 30, 2019 and December 31, 2018	(39,272)	(39,272)
Additional paid-in capital	651,688	651,156
Accumulated deficit	(432,682)	(422,541)
Total Acacia Research Corporation stockholders' equity	179,784	189,393
Noncontrolling interests	1,833	1,847
Total stockholders' equity	181,617	191,240
Total liabilities and stockholders' equity	$ 203,762	$ 223,949

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

ACACIA RESEARCH CORPORATION
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except share and per share data)

	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Revenues	$ 5,460	$ 6,485	$ 8,847	$ 68,578
Portfolio operations:				
Inventor royalties	2,623	1,241	3,976	22,985
Contingent legal fees	375	1,037	552	16,796
Patent acquisition expenses	–	–	–	4,000
Litigation and licensing expenses - patents	1,855	2,639	5,656	5,628
Amortization of patents	818	5,278	1,474	10,608
Other portfolio expenses	–	–	650	–
Total portfolio operations	5,671	10,195	12,308	60,017
Net portfolio income (loss)	(211)	(3,710)	(3,461)	8,561
General and administrative expenses(1)	3,810	6,916	7,505	10,217
Impairment of patent-related intangible assets	–	28,210	–	28,210
Operating loss	(4,021)	(38,836)	(10,966)	(29,866)
Other income (expense):				
Change in fair value of investment, net (Note 5)	6,980	11,347	13,888	(29,750)
Loss on sale of investment (Note 5)	(1,642)	–	(7,232)	–
Impairment of other investment	(8,195)	(1,000)	(8,195)	(1,000)
Interest income and other	1,130	268	2,673	475
Total other income (expense)	(1,727)	10,615	1,134	(30,275)
Loss before provision for income taxes	(5,748)	(28,221)	(9,832)	(60,141)
Provision for income taxes	(9)	(285)	(323)	(476)
Net loss including noncontrolling interests in subsidiaries	(5,757)	(28,506)	(10,155)	(60,617)
Net loss attributable to noncontrolling interests in subsidiaries	–	79	14	152
Net loss attributable to Acacia Research Corporation	$ (5,757)	$ (28,427)	$ (10,141)	$ (60,465)
Net loss attributable to common stockholders - basic and diluted	$ (5,757)	$ (28,427)	$ (10,141)	$ (60,465)
Basic and diluted net loss per common share	$ (0.12)	$ (0.57)	$ (0.20)	$ (1.20)
Weighted average number of shares outstanding - basic and diluted	49,696,016	50,061,812	49,676,059	50,345,808

(1) General and administrative expenses were comprised of the following:

	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
General and administrative expenses	$ 3,349	$ 5,710	$ 7,052	$ 10,035
Non-cash stock compensation expense - G&A	461	521	453	1,225
Non-cash stock compensation expense - Profits Interests (Note 9)	–	685	–	(1,043)
Total general and administrative expenses	$ 3,810	$ 6,916	$ 7,505	$ 10,217

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

ACACIA RESEARCH CORPORATION
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	**2018**	**2019**	**2018**
Net loss including noncontrolling interests	$ (5,757)	$ (28,506)	$ (10,155)	$ (60,617)
Other comprehensive income (loss):				
Unrealized gain (loss) on short-term investments, net of tax of $0	–	10	–	(10)
Unrealized gain (loss) on foreign currency translation, net of tax of $0	–	(87)	–	(104)
Total other comprehensive loss	(5,757)	(28,583)	(10,155)	(60,731)
Comprehensive loss attributable to noncontrolling interests	–	79	14	152
Comprehensive loss attributable to Acacia Research Corporation	$ (5,757)	$ (28,504)	$ (10,141)	$ (60,579)

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

ACACIA RESEARCH CORPORATION
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands, except share data)

	Three Months Ended June 30, 2019							
	Common Stock		Treasury	Additional Paid-in	Accumulated Comprehensive Income	Accumulated	Noncontrolling Interests in Operating	Total Stockholders'
	Shares	Amount	Stock	Capital	(Loss)	Deficit	Subsidiaries	Equity
Balance at March 31, 2019	**49,656,067**	**$ 50**	**$ (39,272)**	**$ 651,148**	**$ –**	**$ (426,925)**	**$ 1,833**	**$ 186,834**
Net loss attributable to Acacia Research Corporation	–	–	–	–	–	(5,757)	–	(5,757)
Stock options exercised	25,136	–	–	79	–	–	–	79
Compensation expense for share-based awards, net of forfeitures	451,668	–	–	461	–	–	–	461
Balance at June 30, 2019	**50,132,871**	**$ 50**	**$ (39,272)**	**$ 651,688**	**$ –**	**$ (432,682)**	**$ 1,833**	**$ 181,617**

	Three Months Ended June 30, 2018							
	Common Stock		Treasury	Additional Paid-in	Accumulated Comprehensive Income	Accumulated	Noncontrolling Interests in Operating	Total Stockholders'
	Shares	Amount	Stock	Capital	(Loss)	Deficit	Subsidiaries	Equity
Balance at March 31, 2018	**50,647,882**	**$ 51**	**$ (34,640)**	**$ 649,724**	**$ (125)**	**$ (349,550)**	**$ 1,593**	**$ 267,053**
Net loss attributable to Acacia Research Corporation	–	–	–	–	–	(28,427)	–	(28,427)
Stock options exercised	6,500	–	–	20	–	–	–	20
Compensation expense for share-based awards, net of forfeitures	31,102	–	–	521	–	–	–	521
Repurchase of restricted common stock	(1,190,420)	(2)	(4,632)	–	–	–	–	(4,634)
Net income attributable to noncontrolling interests in subsidiaries	–	–	–	–	–	–	(80)	(80)
Unrealized gain on foreign currency translation	–	–	–	–	(87)	–	–	(87)
Unrealized loss on short-term investments	–	–	–	–	10	–	–	10
Balance at June 30, 2018	**49,495,064**	**$ 49**	**$ (39,272)**	**$ 650,265**	**$ (202)**	**$ (377,977)**	**$ 1,513**	**$ 234,376**

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

ACACIA RESEARCH CORPORATION
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands, except share data)

	Six Months Ended June 30, 2019							
	Common Stock		Treasury	Additional Paid-in	Accumulated Comprehensive Income	Accumulated	Noncontrolling Interests in Operating	Total Stockholders'
	Shares	Amount	Stock	Capital	(Loss)	Deficit	Subsidiaries	Equity
Balance at December 31, 2018	**49,639,319**	**$ 50**	**$ (39,272)**	**$ 651,156**	**$ –**	**$ (422,541)**	**$ 1,847**	**$ 191,240**
Net loss attributable to Acacia Research Corporation	–	–	–	–	–	(10,141)	–	(10,141)
Stock options exercised	25,136	–	–	79	–	–	–	79
Compensation expense for share-based awards, net of forfeitures	468,416	–	–	453	–	–	–	453
Net income attributable to noncontrolling interests in subsidiaries	–	–	–		–		(14)	(14)
Balance at June 30, 2019	**50,132,871**	**$ 50**	**$ (39,272)**	**$ 651,688**	**$ –**	**$ (432,682)**	**$ 1,833**	**$ 181,617**

	Six Months Ended June 30, 2018							
	Common Stock		Treasury	Additional Paid-in	Accumulated Comprehensive Income	Accumulated	Noncontrolling Interests in Operating	Total Stockholders'
	Shares	Amount	Stock	Capital	(Loss)	Deficit	Subsidiaries	Equity
Balance at December 31, 2017	**50,639,926**	**$ 51**	**$ (34,640)**	**$ 648,996**	**$ (88)**	**$ (320,018)**	**$ 1,358**	**$ 295,659**
Net loss attributable to Acacia Research Corporation	–	–	–	–	–	(60,465)	–	(60,465)
Cumulative effect of new accounting principle	–	–	–	–	–	2,506	308	2,814
Stock options exercised	16,500	–	–	51	–	–	–	51
Compensation expense for share-based awards, net of forfeitures	31,102	–	–	1,225	–	–	–	1,225
Repurchase of restricted common stock	(1,192,464)	(2)	(4,632)	(7)	–	–	–	(4,641)
Net income attributable to noncontrolling interests in subsidiaries	–	–	–	–	–	–	(153)	(153)
Unrealized gain on foreign currency translation	–	–	–	–	(104)	–	–	(104)
Unrealized loss on short-term investments	–	–	–	–	(10)	–	–	(10)
Balance at June 30, 2018	**49,495,064**	**$ 49**	**$ (39,272)**	**$ 650,265**	**$ (202)**	**$ (377,977)**	**$ 1,513**	**$ 234,376**

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

ACACIA RESEARCH CORPORATION
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Six Months Ended June 30,	
	2019	**2018**
Cash flows from operating activities:		
Net loss including noncontrolling interests in subsidiaries	$ (10,155)	$ (60,617)
Adjustments to reconcile net loss including noncontrolling interests in subsidiaries to net cash provided by (used in) operating activities:		
Change in fair value of investment, net (Note 5)	(13,888)	29,750
Change in value of other investment	8,195	1,000
Loss on sale of investment (Note 5)	7,232	–
Depreciation and amortization	1,482	10,627
Non-cash stock compensation	453	182
Unrealized gain from trading securities	(1,004)	–
Purchases of trading securities	(75,154)	–
Maturities and sales of trading securities	11,396	–
Impairment of patent-related intangible assets	–	28,210
Other	–	(313)
Changes in assets and liabilities:		
Accounts receivable	17,576	(934)
Prepaid expenses and other assets	(1,595)	(571)
Accounts payable and accrued expenses	1,606	861
Royalties and contingent legal fees payable	(12,170)	1,436
Net cash provided by (used in) operating activities	(66,026)	9,631
Cash flows from investing activities:		
Patent acquisition costs	(4,420)	–
Sale of investment (Note 5)	5,045	–
Investments in Investees (Note 5)	–	(7,000)
Purchases of available-for-sale investments	–	(49,895)
Maturities and sales of available-for-sale investments	–	15,400
Net cash provided by (used in) investing activities	625	(41,495)
Cash flows from financing activities:		
Repurchase of common stock	–	(4,634)
Repurchase of restricted common stock	–	(7)
Proceeds from exercise of stock options	79	51
Net cash provided by (used in) financing activities	79	(4,590)
Decrease in cash and cash equivalents	(65,322)	(36,454)
Cash and cash equivalents, beginning	128,809	136,604
Cash and cash equivalents, ending	$ 63,487	$ 100,150

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

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Description of Business

As used herein, “Acacia” and the “Company” refer to Acacia Research Corporation and/or its wholly and majority-owned and controlled operating subsidiaries, and/or where applicable, its management.

Acacia’s operating subsidiaries invest in, license and enforce patented technologies. Acacia’s operating subsidiaries partner with inventors and patent owners, applying their legal and technology expertise to patent assets to unlock the financial value in their patented inventions. In recent years, Acacia has also invested in technology companies. Acacia leverages its experience, expertise, data and relationships developed as a leader in the intellectual property ("IP") industry to pursue these opportunities. In some cases, these opportunities will complement, and/or supplement Acacia’s primary licensing and enforcement business.

Acacia’s operating subsidiaries generate revenues and related cash flows from the granting of IP rights (hereinafter “IP Rights”) for the use of patented technologies that its operating subsidiaries control or own. Acacia’s operating subsidiaries assist patent owners with the prosecution and development of their patent portfolios, the protection of their patented inventions from unauthorized use, the generation of licensing revenue from users of their patented technologies and, where necessary, with the enforcement against unauthorized users of their patented technologies through the filing of patent infringement litigation.

Acacia’s operating subsidiaries are principals in the licensing and enforcement effort, obtaining control of the rights in the patent portfolio, or control of the patent portfolio outright. Acacia’s operating subsidiaries own or control the rights to multiple patent portfolios, which include U.S. patents and certain foreign counterparts, covering technologies used in a wide variety of industries.

Neither Acacia nor its operating subsidiaries invent new technologies or products; rather, Acacia depends upon the identification and investment in new patents, inventions and companies that own IP through its relationships with inventors, universities, research institutions, technology companies and others. If Acacia’s operating subsidiaries are unable to maintain those relationships and identify and grow new relationships, then they may not be able to identify new technology-based opportunities for sustainable revenue and/or revenue growth.

During the six months ended June 30, 2019, Acacia obtained control of three new patent portfolios. During fiscal year 2018 Acacia did not obtain control of any new patent portfolios. During fiscal year 2017 Acacia obtained control of one new patent portfolio. In fiscal year 2016, Acacia obtained control of two new patent portfolios.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of Acacia and its wholly and majority-owned and controlled subsidiaries. Material intercompany transactions and balances have been eliminated in consolidation.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and footnotes required by U.S. GAAP in annual financial statements have been omitted or condensed in accordance with quarterly reporting requirements of the Securities and Exchange Commission (“SEC”). These interim unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2018, as reported by Acacia in its Annual Report on Form 10-K filed with the SEC on March 15, 2019, as amended by Amendment No. 1 to Form 10-K on Form 10-K/A, filed with the SEC on April 30, 2019, as well as in our other public filings with the SEC. The December 31, 2018 condensed consolidated balance sheet was derived from audited financial statements but does not include all disclosures required by U.S. GAAP. The condensed consolidated interim financial statements of Acacia include all adjustments of a normal recurring nature which, in the opinion of management, are necessary for a fair statement of Acacia’s consolidated financial position as of June 30, 2019, and results of its operations and its cash flows for the interim periods presented. The consolidated results of operations for the three and six months ended June 30, 2019 are not necessarily indicative of the results to be expected for the entire fiscal year.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Acacia believes that, of the significant accounting policies described herein, the accounting policies associated with revenue recognition, valuation of debt and equity instruments, stock-based compensation expense including the valuation of profits interests, impairment of patent-related intangible assets, impairment of other investment, the determination of the economic useful life of amortizable intangible assets, income taxes and valuation allowances against net deferred tax assets, require its most difficult, subjective or complex judgments.

Reclassifications

Certain reclassifications have been made to the prior fiscal year financial information to conform with the current fiscal year presentation. Such reclassifications had no impact on net income or cash flows.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition

Revenue is recognized upon transfer of control of promised bundled IP Rights and other contractual performance obligations to licensees in an amount that reflects the consideration we expect to receive in exchange for those IP Rights. Revenue contracts that provide promises to grant the right to use IP Rights as they exist at the point in time at which the IP Rights are granted, are accounted for as performance obligations satisfied at a point in time and revenue is recognized at the point in time that the applicable performance obligations are satisfied and all other revenue recognition criteria have been met.

For the periods presented, revenue contracts executed by the Company primarily provided for the payment of contractually determined, one-time, paid-up license fees in consideration for the grant of certain IP Rights for patented technologies owned or controlled by Acacia. Revenues also included license fees from sales-based revenue contracts, the majority of which were originally executed in prior periods, that provide for the payment of quarterly license fees based on quarterly sales of applicable product units by licensees (“Recurring Revenue Agreements”). Revenues may also include court ordered settlements or awards related to our patent portfolio. IP Rights granted included the following, as applicable: (i) the grant of a non-exclusive, retroactive and future license to manufacture and/or sell products covered by patented technologies, (ii) a covenant-not-to-sue, (iii) the release of the licensee from certain claims, and (iv) the dismissal of any pending litigation. The IP Rights granted were perpetual in nature, extending until the legal expiration date of the related patents. The individual IP Rights are not accounted for as separate performance obligations, as (i) the nature of the promise, within the context of the contract, is to transfer combined items to which the promised IP Rights are inputs and (ii) the Company's promise to transfer each individual IP right described above to the customer is not separately identifiable from other promises to transfer IP Rights in the contract.

Since the promised IP Rights are not individually distinct, the Company combines each individual IP right in the contract into a bundle of IP rights that is distinct and accounts for all of the IP Rights promised in the contract as a single performance obligation. The IP Rights granted generally are “functional IP rights” that have significant standalone functionality. Acacia's subsequent activities do not substantively change that functionality and do not significantly affect the utility of the IP to which the licensee has rights. Acacia’s operating subsidiaries have no further obligation with respect to the grant of IP Rights, including no express or implied obligation to maintain or upgrade the technology, or provide future support or services. The contracts provide for the grant (i.e., transfer of control) of the licenses, covenants-not-to-sue, releases, and other significant deliverables upon execution of the contract. Licensees legally obtain control of the IP Rights upon execution of the contract. As such, the earnings process is complete and revenue is recognized upon the execution of the contract, when collectability is probable and all other revenue recognition criteria have been met. Revenue contracts generally provide for payment of contractual amounts within 30-90 days of execution of the contract, or the end of the quarter in which the sale or usage occurs for Recurring Revenue Agreements. Contractual payments made by licensees are generally non-refundable.

For sales-based royalties, the Company includes in the transaction price some or all of an amount of estimated variable consideration to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Notwithstanding, revenue is recognized for a sales-based royalty promised in exchange for a license of IP Rights when the later of (i) the subsequent sale or usage occurs, or (ii) the performance obligation to which some or all of the sales-based royalty has been allocated has been satisfied. Estimates are generally based on historical levels of activity, if available.

Revenues from contracts with significant financing components (either explicit or implicit) are recognized at an amount that reflects the price that a licensee would have paid if the licensee had paid cash for the IP Rights when they transfer to the licensee. In determining the transaction price, the Company adjusts the promised amount of consideration for the effects of the time value of money. As a practical expedient, the Company does not adjust the promised amount of consideration for the effects of a significant financing component if the Company expects, at contract inception, that the period between when the entity transfers promised IP Rights to a customer and when the customer pays for the IP Rights will be one year or less.

In general, the Company is required to make certain judgments and estimates in connection with the accounting for revenue contracts with customers. Such areas may include identifying performance obligations in the contract, estimating the timing of satisfaction of performance obligations, determining whether a promise to grant a license is distinct from other promised goods or services, evaluating whether a license transfers to a customer at a point in time or over time, allocating the transaction price to separate performance obligations, determining whether contracts contain a significant financing component, and estimating revenues recognized at a point in time for sales-based royalties.

Revenues were comprised of the following for the periods presented:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
	(In thousands)			
Paid-up Revenue Agreements	$ 4,864	$ 3,183	$ 4,864	$ 63,246
Recurring Revenue Agreements	596	3,302	3,983	5,332
	$ 5,460	$ 6,485	$ 8,847	$ 68,578

Refer to "*Inventor Royalties and Contingent Legal Expenses*" below for information on related direct costs of revenues.

Portfolio Operations

Cost of revenues include the costs and expenses incurred in connection with Acacia's patent licensing and enforcement activities, including inventor royalties paid to patent owners, contingent legal fees paid to external patent counsel, other patent-related legal expenses paid to external patent counsel, licensing and enforcement related research, consulting and other expenses paid to third-parties and the amortization of patent-related investment costs. These costs are included under the caption "Portfolio operations" in the accompanying condensed consolidated statements of operations. Cost of revenues for the six months ended June 30, 2018 included $4.0 million of costs to acquire certain patent rights related to revenues recognized in the period.

Inventor Royalties and Contingent Legal Expenses

Inventor royalties are expensed in the condensed consolidated statements of operations in the period that the related revenues are recognized. In certain instances, pursuant to the terms of the underlying inventor agreements, upfront advances paid to patent owners by Acacia's operating subsidiaries are recoverable from future net revenues. Patent costs that are recoverable from future net revenues are amortized over the estimated economic useful life of the related patents, or as the prepaid royalties are earned by the inventor, as appropriate, and the related expense is included in amortization expense in the condensed consolidated statements of operations. Any unamortized upfront advances recovered from net revenues are expensed in the period recovered and included in amortization expense in the condensed consolidated statements of operations.

Contingent legal fees are expensed in the condensed consolidated statements of operations in the period that the related revenues are recognized. In instances where there are no recoveries from potential infringers, no contingent legal fees are paid; however, Acacia's operating subsidiaries may be liable for certain out of pocket legal costs incurred pursuant to the underlying legal services agreement.

Inventor royalty and contingent legal agreements typically provide for payment by the Company of contractual amounts 30 days subsequent to the fiscal quarter end during which related license fee payments are received from licensees by the Company.

Concentrations

One licensee individually accounted for 89% of revenues recognized during the three months ended June 30, 2019, and two licensees accounted for 55% and 27% of revenues recognized during the six months ended June 30, 2019. Two licensees accounted for 48% and 42% of revenues recognized during the three months ended June 30, 2018 and one licensee accounted for 87% of revenues recognized during the six months ended June 30, 2018.

The Company does not have any material foreign operations. For the three and six months ended June 30, 2019, 3% and 32%, respectively, of revenues were attributable to licensees domiciled in foreign jurisdictions, based on the jurisdiction of the entity obligated to satisfy payment obligations pursuant to the applicable revenue arrangement. For the three and six months ended June 30, 2018, 43% and 6%, respectively, of revenues were attributable to licensees domiciled in foreign jurisdictions.

Two licensees individually represented approximately 82% and 14% of accounts receivable at June 30, 2019. Four licensees individually represented approximately 38%, 36%, 12% and 11% of accounts receivable at December 31, 2018.

Patents

Patents include the cost of patents or patent rights (hereinafter, collectively “patents”) acquired from third-parties or obtained in connection with business combinations. Patent costs are amortized utilizing the straight-line method over their remaining economic useful lives, ranging from ten to sixty months.

Impairment of Long-lived Assets

Acacia reviews long-lived assets and intangible assets for potential impairment annually (quarterly for patents) and when events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. In the event the expected undiscounted future cash flows resulting from the use of the asset is less than the carrying amount of the asset, an impairment loss is recorded equal to the excess of the asset’s carrying value over its fair value. If an asset is determined to be impaired, the loss is measured based on quoted market prices in active markets, if available. If quoted market prices are not available, the estimate of fair value is based on various valuation techniques, including a discounted value of estimated future cash flows. In the event that management decides to no longer allocate resources to a patent portfolio, an impairment loss equal to the remaining carrying value of the asset is recorded. Refer to Note 4 for additional information.

Fair value is generally estimated using the “Income Approach,” focusing on the estimated future net income-producing capability of the patent portfolios over their estimated remaining economic useful life. Estimates of future after-tax cash flows are converted to present value through “discounting,” including an estimated rate of return that accounts for both the time value of money and investment risk factors. Estimated cash inflows are typically based on estimates of reasonable royalty rates for the applicable technology, applied to estimated market data. Estimated cash outflows are based on existing contractual obligations, such as contingent legal fee and inventor royalty obligations, applied to estimated license fee revenues, in addition to other estimates of out-of-pocket expenses associated with a specific patent portfolio’s licensing and enforcement program. The analysis also contemplates consideration of current information about the patent portfolio including, status and stage of litigation, periodic results of the litigation process, strength of the patent portfolio, technology coverage and other pertinent information that could impact future net cash flows.

Cash and Cash Equivalents

Acacia considers all highly liquid, short-term investments with original maturities of three months or less when purchased to be cash equivalents. For the periods presented, Acacia’s cash equivalents are comprised of investments in AAA rated money market funds that invest in first-tier only securities, which primarily includes: domestic commercial paper, securities issued or guaranteed by the U.S. government or its agencies, U.S. bank obligations, and fully collateralized repurchase agreements. Acacia’s cash equivalents are measured at fair value using quoted prices that represent Level 1 inputs.

Trading Securities- Debt

Investments in debt securities are reported at fair value on a recurring basis, with related realized and unrealized gains and losses recorded in the condensed consolidated statement of operations in other income (expense). Realized and unrealized gains and losses are recorded based on the specific identification method. Interest is included in other income (expense).

Trading Securities - Equity

Investments in equity securities are reported at fair value on a recurring basis, with related realized and unrealized gains and losses in the value of such securities recorded in the condensed consolidated statement of operations in other income (expense). Dividend income is included in other income (expense).

Short-term investments for the periods presented were comprised of the following:

	Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
		(In thousands)		
Security Type				
June 30, 2019:				
Trading securities - debt	$ 90,061	$ 425	$ (4)	$ 90,482
Trading securities - equity	10,977	99	(142)	10,934
	$ 101,038	$ 524	$ (146)	$ 101,416
December 31, 2018:				
Trading securities - debt	$ 33,643	$ 18	$ (19)	$ 33,642
Trading securities - equity	3,389	27	(404)	3,012
	$ 37,032	$ 45	$ (423)	$ 36,654

Fair Value Measurements

U.S. GAAP defines fair value as the price that would be received for an asset or the exit price that would be paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants on the measurement date, and also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs, where available. The three-level hierarchy of valuation techniques established to measure fair value is defined as follows:

(i) **Level 1 –** ***Observable Inputs***: Quoted prices in active markets for identical investments;

(ii) **Level 2** – ***Pricing Models with Significant Observable Inputs***: Other significant observable inputs, including quoted prices for similar investments, interest rates, credit risk, etc.; and

(iii) **Level 3** – ***Unobservable Inputs***: Significant unobservable inputs, including the entity's own assumptions in determining the fair value of investments.

Whenever possible, the Company is required to use observable market inputs (Level 1 – quoted market prices) when measuring fair value. In such cases, the level at which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. The assessment of the significance of a particular input requires judgment and considers factors specific to the asset or liability being measured. In certain cases, inputs used to measure fair value fall into different levels of the fair value hierarchy. Financial assets and liabilities measured at fair value on a recurring basis were as follows:

	Level 1	Level 2	Level 3
		(In thousands)	
Assets as of June 30, 2019:			
Trading securities - debt	$ –	$ 90,482	$ –
Trading securities - equity	10,934	–	–
Investment at fair value - warrants (Note 5)	–	4,459	–
Investment at fair value - common stock (Note 5)	4,611	–	–
Total recurring fair value measurements as of June 30, 2019	$ 15,545	$ 94,941	$ –
Assets as of December 31, 2018:			
Trading securities - debt	$ –	$ 33,642	$ –
Trading securities - equity	3,012	–	–
Investment at fair value - warrants (Note 5)	–	2,064	–
Investment at fair value - common stock (Note 5)	5,395	–	–
Total recurring fair value measurements as of December 31, 2018	$ 8,407	$ 35,706	$ –

Investments at Fair Value

On an individual investment basis, Acacia may elect to account for investments in companies where the Company has the ability to exercise significant influence over operating and financial policies of the investee, at fair value. If the fair value method is applied to an investment that would otherwise be accounted for under the equity method of accounting, it is applied to all of the financial interests in the same entity that are eligible items (i.e., common stock and warrants).

Other Investments

Equity investments in common stock and in-substance common stock without readily determinable fair values in companies over which the Company has the ability to exercise significant influence, are accounted for using the equity method of accounting. Acacia includes its proportionate share of earnings and/or losses of its equity method investees in equity in earnings (losses) of investees in the condensed consolidated statements of operations.

Investments in preferred stock with substantive liquidation preferences are accounted for at cost, (subject to impairment considerations, as described below, if any), as adjusted for the impact of changes resulting from observable price changes in orderly transactions for identical or similar investments of the same issuer. In-substance common stock is an investment in an entity that has risk and reward characteristics that are substantially similar to that entity's common stock. An investment in preferred stock with substantive liquidation preferences over common stock, is not substantially similar to common stock, and therefore is not considered in-substance common stock. A liquidation preference is substantive if the investment has a stated liquidation preference that is significant, from a fair value perspective, in relation to the purchase price of the investment. A liquidation preference in an investee that has sufficient subordinated equity from a fair value perspective is substantive because, in the event of liquidation, the investment will not participate in substantially all of the investee's losses, if any.

The initial determination of whether an investment is substantially similar to common stock is made on the initial date of investment if the Company has the ability to exercise significant influence over the operating and financial policies of the investee. That determination is reconsidered if:

(i) contractual terms of the investment are changed,
(ii) there is a significant change in the capital structure of the investee, including the investee's receipt of additional subordinated financing, or
(iii) the Company obtains an additional interest in an investment, resulting in the method of accounting for the cumulative interest being based on the characteristics of the investment at the date at which the Company obtains the additional interest.

Refer to Note 5 for additional information.

Stock-Based Compensation

The compensation cost for all stock-based awards is measured at the grant date, based on the fair value of the award, and is recognized as an expense on a straight-line basis over the employee’s requisite service period (generally the vesting period of the equity award) which is generally two to four years. The fair value of restricted stock and restricted stock unit awards is determined by the product of the number of shares or units granted and the grant date market price of the underlying common stock. The fair value of each option award is estimated on the date of grant using a Black-Scholes option-pricing model. Stock-based compensation expense for awards with service and/or performance conditions that affect vesting is recorded only for those awards expected to vest using an estimated forfeiture rate. The Company accounts for forfeitures of awards as they occur.

Profits Interest Units (“Units”) are accounted for in accordance with Accounting Standards Codification (“ASC”) 718-10, “Compensation - Stock Compensation.” The vesting conditions do not meet the definition of service, market or performance conditions, as defined in ASC 718. As such, the Units are classified as liability awards. Liability classified awards are measured at fair value on the grant date and re-measured each reporting period at fair value until the award is settled. Compensation expense is adjusted each reporting period for changes in fair value prorated for the portion of the requisite service period rendered. Initially, compensation expense was recognized on a straight-line basis over the employee’s requisite service period (generally the vesting period of the equity award) which was five years. Upon full vesting of the award, which occurred during the three months ended September 30, 2017, previously unrecognized compensation expense was immediately recognized in the period and will continue to be fully recognized for any changes in fair value, until the Units are settled. The Company has a purchase option to purchase the vested Units that are not otherwise forfeited after termination of continuous service. The exercise price of the purchase option is the fair market value of the Units on the date of termination of continuous service, or December 31, 2018. Non-cash stock compensation expense related to the Units is reflected in general and administrative expense in the accompanying condensed consolidated statements of operations.

Treasury Stock

Repurchases of the Company’s outstanding common stock are accounted for using the cost method. The applicable par value is deducted from the appropriate capital stock account on the formal or constructive retirement of treasury stock. Any excess of the cost of treasury stock over its par value is charged to additional paid-in capital, and reflected as Treasury Stock on the condensed consolidated balance sheets.

Impairment of Investments

Acacia reviews its investments quarterly for indicators of other-than-temporary impairment. This determination requires significant judgment. In making this judgment, Acacia considers available quantitative and qualitative evidence in evaluating potential impairment of its investments. If the cost of an investment exceeds its fair value, Acacia evaluates, among other factors, general market conditions and the duration and extent to which the fair value is less than cost. Acacia also considers specific adverse conditions related to the financial health of and business outlook for the investee, including industry and sector performance, changes in technology, and operational and financing cash flow factors. Once a decline in fair value is determined to be other-than-temporary, an impairment charge is recorded in the condensed consolidated statements of operations and a new cost basis in the investment is established.

Income Taxes

Income taxes are accounted for using an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in Acacia's condensed consolidated financial statements or consolidated income tax returns. A valuation allowance is established to reduce deferred tax assets if all, or some portion, of such assets will more than likely not be realized, or if it is determined that there is uncertainty regarding future realization of such assets.

The provision for income taxes for interim periods is determined using an estimate of Acacia's annual effective tax rate, adjusted for discrete items, if any, that are taken into account in the relevant period. Each quarter, Acacia updates the estimate of the annual effective tax rate, and if the estimated tax rate changes, a cumulative adjustment is recorded.

The Company's effective tax rates were 0% and (3%) for the three and six months ended June 30, 2019, respectively and (1%) and (1%) for the three and six months ended June 30, 2018, respectively. Tax expense for the periods presented primarily reflects the impact of state taxes and foreign withholding taxes incurred on revenue agreements executed with third-party licensees domiciled in foreign jurisdictions. The Company has recorded a full valuation allowance against our net deferred tax assets as of June 30, 2019 and 2018. These assets primarily consist of foreign tax credits, capital loss carryforwards and net operating loss carryforwards.

3. LOSS PER SHARE

The following table presents the weighted-average number of shares of common stock outstanding used in the calculation of basic and diluted net income (loss) per share:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Weighted-average shares used in computing net loss per share attributable to common stockholders - basic and diluted	49,696,016	50,061,812	49,676,059	50,345,808
Basic and diluted net loss per common share	$ (0.12)	$ (0.57)	$ (0.20)	$ (1.20)
Anti-dilutive equity-based incentive awards excluded from the computation of diluted loss per share	1,766,191	4,793,037	1,766,191	4,851,737
Maximum price of awards excluded from the computation of diluted loss per share	$ 6.75	$ 6.75	$ 6.75	$ 6.75

4. PATENTS

Acacia's only identifiable intangible assets at June 30, 2019 and December 31, 2018 are patents and patent rights. Patent-related accumulated amortization totaled $321,054,000 and $319,580,000 as of June 30, 2019 and December 31, 2018, respectively. Acacia's patents have remaining estimated economic useful lives ranging from ten to sixty months. The weighted-average remaining estimated economic useful life of Acacia's patents is approximately four years.

The following table presents the scheduled annual aggregate amortization expense as of June 30, 2019:

For the years ending December 31,	
(In thousands)	
Remainder of 2019	$ 1,720
2020	2,555
2021	1,695
2022	1,695
2023	1,620
Thereafter	249
	$ 9,534

5. INVESTMENTS

Investment at Fair Value

Veritone Investment Agreement

On August 15, 2016, Acacia entered into an Investment Agreement with Veritone, Inc. ("Veritone") pursuant to which Acacia funded in an aggregate of $20 million of loans to Veritone, which were converted into 1,523,746 shares of Veritone's common stock upon the public offering of Veritone's common stock on May 17, 2017 ("IPO"), based on a conversion price of $13.61 per share. Veritone also issued Acacia warrants to purchase up to a total of 154,312 shares of Veritone's common stock at an exercise price of $13.61 per share expiring in 2020.

In addition, in August 2016, Veritone issued Acacia a five-year warrant to purchase up to $50 million worth of shares of Veritone's common stock at an exercise price of $13.61 per share subject to certain adjustments. Upon the consummation of Veritone's IPO, Acacia exercised its option to purchase an additional 2,150,335 shares of Veritone common stock, at an aggregate purchase price of $29.3 million. Acacia then received an additional warrant (the "10% Warrant") that provides for the issuance of an additional 809,400 shares of Veritone common stock at an exercise price of $13.61 per share expiring in 2022.

Veritone Bridge Loan

On March 14, 2017, Acacia entered into an additional secured convertible promissory note with Veritone pursuant to which Acacia funded $4.0 million which was converted into 445,440 shares of Veritone's common stock at a conversion price of $13.61 per share in the IPO. Acacia also received a 10-year warrant to purchase up to 156,720 shares of Veritone common stock at an exercise price of $13.61 per share expiring in 2027.

As a result of the foregoing transactions, Acacia received an aggregate total of 4,119,521 of Veritone shares of Veritone's common stock and warrants to purchase up to 1,120,432 shares of in Veritone common stock. On October 5, 2018, a registration statement on Form S-3 registering all of Acacia's shares of Veritone common stock was declared effective by the SEC. During the year ended December 31, 2018, Acacia sold 2,700,000 shares of Veritone common stock at prices ranging from $4.95 to $10.44 and recorded a realized loss of $19.1 million. During the three and six months ended June 30, 2019, Acacia sold 239,920 and 867,968 shares of Veritone common stock at prices ranging from $6.45 to $9.21 and from $4.77 to $9.21 for the three and six months ended June 30, 2019, respectively, and recorded a realized loss of $1.6 million and $7.2 million for the three and six months ended June 30, 2019, respectively.

At June 30, 2019, the fair value of the 551,552 shares of Veritone common stock owned by Acacia totaled $4,611,000. At June 30, 2019, the fair value of the 1,120,432 common stock purchase warrants held by Acacia totaled $4,459,000.

Changes in the fair value of Acacia's investment in Veritone are recorded as unrealized gains or losses in the consolidated statements of operations. For the three and six months ended June 30, 2019 and 2018, the accompanying consolidated statements of operations reflected the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
	(In thousands)			
Change in fair value of investment, warrants	$ 3,091	$ 2,865	$ 2,394	$ (4,782)
Change in fair value of investment, common stock	3,889	8,482	11,494	(24,968)
Loss on sale of investment, common stock	(1,642)	–	(7,232)	–
Net realized and unrealized gain (loss) on investment at fair value	$ 5,338	$ 11,347	$ 6,656	$ (29,750)

Miso Robotics Investment

In June 2017, Acacia made an investment in the Series A Preferred financing round for Miso Robotics, Inc. ("Miso Robotics"), an innovative leader in robotics and artificial intelligence solutions, totaling $2,250,000, acquiring a 22.6% ownership interest in Series A preferred stock of Miso Robotics, and one board seat. In February 2018, Acacia made an additional equity investment in the Series B Preferred financing round for Miso Robotics totaling $6,000,000, increasing its ownership interest (Series B preferred stock) in Miso Robotics to approximately 30%, and acquiring an additional board seat.

As of February 2018, the preferred stock was not deemed to be in-substance common stock due to the substantive liquidation preference associated with the preferred stock. As such, as of February 2018, the cumulative investment in Miso Robotics is recorded at cost and assessed for any impairment at each balance sheet date. Prior to February 2018, the equity method of accounting was applied.

Acacia reviews its investments quarterly for indicators of other-than-temporary impairment. In making this judgment, Acacia considers available quantitative and qualitative evidence in evaluating potential impairment of its investments. As of June 30, 2019, Acacia recorded an impairment of $8.2 million for its investment in Miso Robotics based on analyses including, but not limited to, operating results and trends, recent events and changes in circumstances, which resulted in a determination that the carrying amount of the investment may not be recoverable and thus a full impairment was warranted. This determination requires significant judgment, and valuations of private companies are inherently more complex due to the lack of readily available market data. The future actual operational result of the investee may differ significantly from our current conclusion. Refer to Note 2 "*Impairment of Investments*" for further information.

6. COMMITMENTS AND CONTINGENCIES

Patent Enforcement

Certain of Acacia's operating subsidiaries are often required to engage in litigation to enforce their patents and patent rights. In connection with any of Acacia's operating subsidiaries' patent enforcement actions, it is possible that a defendant may request and/or a court may rule that an operating subsidiary has violated statutory authority, regulatory authority, federal rules, local court rules, or governing standards relating to the substantive or procedural aspects of such enforcement actions. In such event, a court may issue monetary sanctions against Acacia or its operating subsidiaries or award attorney's fees and/or expenses to a defendant(s), which could be material.

Facility Leases

The Company primarily leases office facilities under operating lease arrangements that will end in various years through July 2024.

On June 7, 2019, we entered into a building lease agreement (the "New Lease") with Jamboree Center 4 LLC (the "Landlord"). Pursuant to the New Lease, we will lease approximately 8,293 square feet of office space for our corporate headquarters in Irvine, California. The New Lease shall commence on August 1, 2019. The term of the New Lease will be 60 months from the commencement date.

The Company has subleased a facility under another operating lease agreement (the "Old Lease") that we ceased using in December 2018, and the sublease will go through the remaining term of the Old Lease, which ends on January 31, 2020. The total sublease income received was $195,000 for the three months ended June 30, 2019. The total sublease income received was $390,000 for the six months ended June 30, 2019.

Operating lease costs, net of sublease income, were $114,000 and $256,000 for the three months ended June 30, 2019 and 2018, respectively. Operating lease costs, net of sublease income, were $205,000 and $502,000 for the six months ended June 30, 2019 and 2018, respectively.

The aggregate basic rent payable under the New Lease and the Old Lease discussed above for the next five years is currently expected to be paid as follows:

Fiscal year ending December 31, (In thousands)		
2019	$	824
2020		435
2021		334
2022		349
2023		364
Thereafter		218
	$	2,524

Effective January 1, 2019, the Company has adopted ASC 842, electing the practical expedient approaches and has recognized approximately $2.1 million of right-of-use assets and an increase of $2.5 million in lease-related liabilities as of June 30, 2019. The adoption of ASC 842 is expected to have no material impact on the Company's consolidated results of operations for the year ending December 31, 2019.

Other Matters

Acacia is subject to claims, counterclaims and legal actions that arise in the ordinary course of business. Management believes that the ultimate liability with respect to these claims and legal actions, if any, will not have a material effect on Acacia’s condensed consolidated financial position, results of operations or cash flows.

On June 17, 2015, Celltrace Communications Ltd. (“Celltrace”), filed a lawsuit against Acacia in U.S. District Court for the Southern District of New York, Case No. 1:15-cv-04746, alleging, among other things, significant damages for alleged breach of contract, unjust enrichment and fraud. Acacia disputes the allegations and does not believe that Celltrace is entitled to any damages. Acacia successfully moved to compel arbitration of the dispute, and the District Court stayed the litigation pending arbitration before the International Court of Arbitration for the International Chamber of Commerce (the “ICC”). Celltrace appealed the decision to the U.S. Court of Appeals for the Second Circuit, which denied the appeal. Celltrace filed its request for arbitration of the claims with the ICC on November 28, 2016. Acacia filed an answer denying all allegations of wrongdoing and asserting affirmative defenses. A tribunal was appointed to preside over the arbitration and conducted its first case management conference on June 26, 2017. The parties conducted discovery and submitted their cases in chief to the tribunal in a series of written submissions per the tribunal’s orders between January 2018 and December 2018. The tribunal held an evidentiary hearing with live witness testimony in New York City between February 4, 2019 and February 13, 2019. At the end of the hearing, the tribunal set a schedule for post-hearing briefing by the parties, which concluded in April 2019. Acacia continues to vigorously contest all allegations of wrongdoing. On May 15, 2019, the tribunal gave notice to the parties that it would render a final award by July 31, 2019. On July 22, 2019, the tribunal extended its deadline to render a final award to August 30, 2019. As of the date of this report, the tribunal has not yet issued a final award.

In a separate case on December 6, 2017, the Federal Court of Canada allowed a counterclaim for invalidity of a patent asserted by Rapid Completions LLC and awarded costs payable by Rapid Completions LLC in an amount to be determined.

For the six months ended June 30, 2019, settlement and loss contingency related operating expenses were $650,000. The Company had no settlement and loss contingency related operating expenses in the six months ended June 30, 2018.

7. STOCKHOLDERS' EQUITY

Repurchases of Common Stock.

In February 2018, Acacia's Board of Directors authorized the repurchase of up to $20,000,000 of the Company's outstanding common stock in open market purchases or private purchases, from time to time, in amounts and at prices to be determined by the Board of Directors at its discretion (the "Stock Repurchase Program"). In determining whether or not to repurchase any shares of Acacia's common stock, Acacia's Board of Directors consider such factors as the impact of the repurchase on Acacia's cash position, as well as Acacia's capital needs and whether there is a better alternative use of Acacia's capital. Acacia has no obligation to repurchase any amount of its common stock under the Stock Repurchase Program. Repurchases to date were made in the open market in compliance with applicable SEC rules. The authorization to repurchase shares presented an opportunity to reduce the outstanding share count and enhance stockholder value. The repurchased shares are expected to be retired. Monthly stock repurchases for the periods presented, all of which were purchased as part of a publicly announced plan or program, were as follows:

	Total Number of Shares Purchased	Average Price paid per Share	Approximate Dollar Value of Shares that May Yet be Purchased under the Program	Plan Expiration Date
May 1, 2018 - May 30, 2018	1,190,420	$3.89	$15,366,000	February 28, 2019
Totals for 2018	1,190,420	$3.89		

Tax Benefits Preservation Plan.

On March 12, 2019, Acacia's Board of Directors announced that it had unanimously approved the adoption of a Tax Benefits Preservation Plan (the "Plan"). The purpose of the Plan is to protect the Company's ability to utilize potential tax assets, such as net operating loss carryforwards and tax credits to offset potential future taxable income.

The Plan is designed to reduce the likelihood that the Company will experience an ownership change by discouraging (i) any person or group from acquiring beneficial ownership of 4.9% or more of the Company's outstanding common stock and (ii) any existing stockholders who, as of the time of the first public announcement of the adoption of the Plan, beneficially own more than 4.9% of the Company's then-outstanding shares of the Company's common stock from acquiring additional shares of the Company's common stock (subject to certain exceptions). There is no guarantee, however, that the Plan will prevent the Company from experiencing an ownership change.

In connection with the adoption of the Plan, Acacia's Board of Directors authorized and declared a dividend distribution of one right for each outstanding share of the Company's common stock to stockholders of record at the close of business on March 16, 2019. On or after the distribution date, each right would initially entitle the holder to purchase one one-thousandth of a share of the Company's Series B Junior Participating Preferred Stock, $0.001 par value for a purchase price of $12.00.

8. RECENT ACCOUNTING PRONOUNCEMENTS

Recent Accounting Pronouncements - Recently Adopted.

In February 2016, FASB issued ASU 2016-02, Leases, or ASC 842 which requires a lessee to recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset. In July 2018, FASB issued ASU 2018-11, Leases, which provides an additional transition option for an entity to apply the provisions of ASC 842 by recognizing a cumulative effect adjustment at the effective date of adoption without adjusting the prior comparative periods presented. Further, in January 2019, FASB issued ASU 2019-01, Leases: Codification Improvements, which provides disclosure relief for the interim periods when adopting ASC 842. The primary impact of adopting ASC 842 for the Company was the recognition in the consolidated balance sheet of certain lease-related assets and liabilities for operating leases with terms longer than 12 months as of January 1, 2019. Such amounts were not previously accounted for in the Company's consolidated balance sheets. The Company has adopted ASC 842, electing the practical expedient approaches and has recognized approximately $2.1 million of right-of-use assets and an increase of $2.5 million in lease-related liabilities as of June 30, 2019. The adoption of ASC 842 is expected to have no material impact on the Company's consolidated results of operations for the year ending December 31, 2019.

There have been no other material changes to the Company's significant accounting policies during the three and six months ended June 30, 2019.

9. FAIR VALUE DISCLOSURES

Acacia holds the following types of financial instruments at June 30, 2019 and December 31, 2018.

Trading securities - debt

Debt securities includes corporate bonds with fair value that is determined by third party quotations from outside pricing services and/or computerized pricing models, which may be based on transactions, bids or estimates. Acacia classifies the fair value of corporate bonds within Level 2 of the valuation hierarchy.

Trading securities – equity

Equity securities includes investments in public companies’ common stock and are recorded at fair value based on the quoted market price of each share on the valuation date. The fair values of these securities are within Level 1 of the valuation hierarchy.

Investments at fair value - common stock

Acacia’s equity investment in Veritone common stock is recorded at fair value based on the quoted market price of Veritone’s common stock on the applicable valuation date. The fair values of these securities are within Level 1 of the valuation hierarchy.

Investments at fair value - warrants.

Warrants are recorded at fair value, as based on the Black-Scholes option-pricing model (Level 2).

10. SUBSEQUENT EVENTS

On August 5, 2019, Acacia’s Board of Directors approved a stock repurchase program, which authorized the purchase of up to $10.0 million of the Company's common stock through open market purchases, through block trades, through 10b5-1 plans, or by means of private purchases, from time to time, through July 31, 2020.

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

The following discussion and analysis of our financial condition and results of operations should be read together with our unaudited condensed consolidated financial statements and the related notes included in Part I, Item1 of this Quarterly Report on Form10-Q for the three months ended June 30, 2019, or this Report. This discussion and analysis contains forward-looking statements that are based on our current expectations and reflect our plans, estimates and anticipated future financial performance. See the section of this Report entitled "Cautionary Statement Regarding Forward-Looking Statements" for additional information. These statements involve numerous risks and uncertainties. Our actual results may differ materially from those expressed or implied by these forward-looking statements as a result of many factors, including those set forth in "Risk Factors" in Part II, Item1A of this Report.

General

As used in this Quarterly Report on Form 10-Q, "we," "us" "our" and "Company" refer to Acacia Research Corporation, a Delaware corporation, and/or its wholly and majority-owned and controlled operating subsidiaries, and/or where applicable, its management. All IP acquisition, development, licensing and enforcement activities are conducted solely by certain of Acacia Research Corporation's wholly and majority-owned and controlled operating subsidiaries.

We invest in IP and related absolute return assets and engage in the licensing and enforcement of patented technologies. We partner with inventors and patent owners, applying our legal and technology expertise to patent assets to unlock the financial value in their patented inventions. We generate revenues and related cash flows from the granting of patent rights for the use of patented technologies that our operating subsidiaries control or own. We assist patent owners with the prosecution and development of their patent portfolios, the protection of their patented inventions from unauthorized use, the generation of licensing revenue from users of their patented technologies and, where necessary, with the enforcement against unauthorized users of their patented technologies through the filing of patent infringement litigation. We are principals in the licensing and enforcement effort, obtaining control of the rights in the patent portfolio, or control of the patent portfolio outright.

We have a proven track record of licensing and enforcement success with over 1,560 license agreements executed to date, across nearly 200 patent portfolio licensing and enforcement programs. To date, we have generated gross licensing revenue of approximately $1.6 billion, and have returned more than $775 million to our patent partners.

Executive Summary

Overview

For the three months ended June 30, 2019 and 2018, we reported revenues of $5.5 million and $6.5 million, respectively. For the six months ended June 30, 2019 and 2018, we reported revenues of $8.8 million and $68.6 million, respectively. Cash and short-term investments totaled $164.9 million as of June 30, 2019, as compared to $165.5 million as of December 31, 2018. Our operating activities during the periods presented were focused on the continued operation of our patent licensing and enforcement business, including the continued pursuit of our ongoing patent licensing and enforcement programs.

Our team's expertise in identifying and evaluating complex IP, and in developing and cultivating long-term business relationships, provides us a unique window into innovation and technological advancement. We are increasing our efforts to leverage our expertise and experience to create new avenues and monetize our existing IP assets, which we believe will lead to increased stockholder value. We will leverage our experience, expertise, data and relationships developed as a leader in the IP industry to pursue these opportunities.

Patent Portfolio Intake.

During the three months ended June 30, 2019, we acquired one new patent portfolio covering enterprise networking equipment and residential gateways technology and a second covering customization of ad insertion for Internet radio streaming technology. During the six months ended June 30, 2019, we acquired three new patent portfolios covering (i) enterprise networking equipment and residential gateways technology, (ii) customization of ad insertion for Internet radio streaming technology, and (iii) wireless communications and cloud computing. The patents and patent rights acquired during the six months ended 2019 have estimated economic useful lives of approximately five years.

Operating Activities.

Operating activities during the periods presented included the following:

	Three Months Ended June 30,		Change		Six Months Ended June 30,		Change	
	2019	2018	$	%	2019	2018	$	%
Revenues (in thousands, except percentage change values)	$ 5,460	$ 6,485	$ (1,025)	(16%)	$ 8,847	$ 68,578	$ (59,731)	(87%)
New agreements executed	1	2	(1)	(50%)	1	6	(5)	(83%)
Licensing and enforcement programs generating revenues	3	5	(2)	(40%)	3	6	(3)	(50%)
New patent portfolios	1	–	1	–	3	–	3	–

In addition to our portfolio intake trend described above, our revenues historically have fluctuated quarterly, and can vary significantly, based on a number of factors including the following:

- the dollar amount of agreements executed each period, which can be driven by the nature and characteristics of the technology or technologies being licensed and the magnitude of infringement associated with a specific licensee;
- the specific terms and conditions of agreements executed each period including the nature and characteristics of rights granted, and the periods of infringement or term of use contemplated by the respective payments;
- fluctuations in the total number of agreements executed each period;
- the number of, timing, results and uncertainties associated with patent licensing negotiations, mediations, patent infringement actions, trial dates and other enforcement proceedings relating to our patent licensing and enforcement programs;
- the relative maturity of licensing programs during the applicable periods;
- other external factors, including the periodic status or results of ongoing negotiations, the status or results of ongoing litigations and appeals, actual or perceived shifts in the regulatory environment, impact of unrelated patent related judicial proceedings and other macroeconomic factors; and
- fluctuations in overall patent portfolio related enforcement activities which are impacted by the portfolio intake challenges discussed above.

Our management does not attempt to manage for smooth sequential periodic growth in revenues from period to period, and therefore, periodic results can be uneven. Unlike most operating businesses and industries, licensing revenues not generated in a current period are not necessarily foregone but, depending on whether negotiations, litigation or both continue into subsequent periods, and depending on a number of other factors, such potential revenues may be pushed into subsequent fiscal periods.

Revenues for the six months ended June 30, 2019 and 2018 included fees from the following technology licensing and enforcement programs:

- Bone Wedge technology(1)(2)
- Online Auction Guarantee technology(2)
- Speech codes used in wireless and wireline systems technology (1)(2)
- Super Resolutions Microscopy technology (1)(2)
- Video Conferencing technology(2)
- Wireless Infrastructure and User Equipment technology (2)

(1) 2019 period
(2) 2018 period

Summary of Results of Operations - Overview
For the Three and Six Months Ended June 30, 2019 and 2018

	Three Months Ended June 30,				Six Months Ended June 30,			
	2019	2018	$ Change	% Change	2019	2018	$ Change	% Change
	(In thousands, except percentage change values)							
Revenues	$ 5,460	$ 6,485	$ (1,025)	(16%)	$ 8,847	$ 68,578	$ (59,731)	(87%)
Operating costs and expenses	9,481	45,321	(35,840)	(79%)	19,813	98,444	(78,631)	(80%)
Operating loss	(4,021)	(38,836)	34,815	(90%)	(10,966)	(29,866)	18,900	(63%)
Other income (expense), net	(1,727)	10,615	(12,342)	(116%)	1,134	(30,275)	31,409	(104%)
Loss before provision for income taxes	(5,748)	(28,221)	22,473	(80%)	(9,832)	(60,141)	50,309	(84%)
Provision for income taxes	(9)	(285)	276	(97%)	(323)	(476)	153	(32%)
Net loss attributable to Acacia Research Corporation	(5,757)	(28,427)	22,670	(80%)	(10,141)	(60,465)	50,324	(83%)

Results of Operations - Three months ended June 30, 2019 compared with the three months ended June 30, 2018

Revenues decreased $1.0 million to $5.5 million for the three months ended June 30, 2019, as compared to $6.5 million in the comparable prior year quarter, due primarily to a decrease in the number of new agreements executed during the quarter. Refer to "*Investments in Patent Portfolios"* below for additional information regarding the impact of portfolio acquisition trends on current and future licensing and enforcement related revenues.

Loss before provision for income taxes was $5.7 million for the three months ended June 30, 2019, as compared to $28.2 million for the three months ended June 30, 2018. The net change was comprised of the change in revenues described above, a $7.0 million unrealized gain offset by a $1.6 million realized loss on our equity investment in Veritone, Inc., or Veritone, for the three months ended June 30, 2019, as compared to a $11.3 million unrealized gain for the comparable prior year period on our equity investment in Veritone, an $8.2 million impairment charge on our other investment in Miso Robotics, Inc., or Miso Robotics, recorded in the second quarter of 2019, as compared to a $1.0 million impairment charge on our other investment in Bitzumi, Inc., or Bitzumi, recorded in the second quarter of 2018, and other changes in operating expenses as follows:

- Inventor royalties and contingent legal fees, on a combined basis, increased $0.7 million, or 32%, to $3.0 million, primarily due to costs related to the new paid-up revenues for the periods.

- Litigation and licensing expenses-patents decreased $0.8 million, or 30%, to $1.9 million, due primarily to a net decrease in litigation support and third-party technical consulting expenses associated with ongoing litigation.

- Amortization expense decreased $4.5 million, or 85%, to $0.8 million, due to a decrease in scheduled amortization resulting from the $28.2 million patent portfolio impairment charges previously recorded in the second quarter of 2018.

- General and administrative expenses, excluding non-cash stock compensation, decreased $2.4 million, or 41%, to $3.3 million, primarily due to higher corporate, general and administrative costs related to the 2018 proxy contest in the prior year.

- Net non-cash stock compensation expense decreased $0.7 million, or 62%, due to the three months ended June 30, 2018 including a $0.7 million charge for the increase in fair value of the Veritone related profits interest units, or the Units.

Results of Operations - Six months ended June 30, 2019 compared with the six months ended June 30, 2018

Revenues decreased $59.7 million to $8.8 million for the six months ended June 30, 2019, as compared to $68.6 million in the comparable prior year period, due primarily to a decrease in the number of new agreements executed during the 2019 period. Refer to "*Investments in Patent Portfolios"* below for additional information regarding the impact of portfolio acquisition trends on current and future licensing and enforcement related revenues.

Loss before provision for income taxes was $9.8 million for the six months ended June 30, 2019, as compared to $60.1 million for the six months ended June 30, 2018. The net change was primarily comprised of the change in revenues described above, a $13.9 million unrealized gain offset by a $7.2 million realized loss for the six months ended June 30, 2019, as compared to a $29.8 million unrealized loss for the comparable prior year period on our equity investment in Veritone, an $8.2 million impairment charge on our other investment in Miso Robotics recorded in the six months ended June 30, 2019, as compared to a $1.0 million impairment charge on our other investment in Bitzumi recorded in the six months ended June 30, 2018, and other changes in operating expenses as follows:

- Inventor royalties and contingent legal fees, on a combined basis, decreased $35.3 million, or 89%, to $4.5 million, primarily due to the decrease in related revenues for the periods.

- Litigation and licensing expenses-patents remained relatively consistent, primarily due to litigation support and third-party technical consulting expenses associated with ongoing litigations.

- Amortization expense decreased $9.1 million, or 86%, to $1.5 million, due to a decrease in scheduled amortization resulting from the $28.2 million patent portfolio impairment charges previously recorded in the six months ended June 30, 2018 .

- General and administrative expenses, excluding non-cash stock compensation, decreased $3.0 million, or 30%, to $7.1 million, primarily due to higher corporate, general and administrative costs related to the 2018 proxy contest in the prior year.

- Net non-cash stock compensation expense increased $0.3 million, or 149%, due to a decrease in expense for employees and board members that were terminated in 2018, offset by a $1.0 million credit for the decrease in fair value of the Units included in the six months ended June 30, 2018.

- For the six months ended June 30, 2019, settlement and loss contingency related operating expenses were $650,000. The Company had no settlement and loss contingency related operating expenses in the six months ended June 30, 2018.

Investments in Patent Portfolios

One of the significant challenges in our industry continues to be quality patent intake due to the challenges and complexity associated with the current patent environment. During the six months ended June 30, 2019, we acquired three new patent portfolios. In fiscal year 2018 we did not acquire any patent portfolios, compared to one portfolio acquired during fiscal year 2017.

With respect to our licensing, enforcement and overall business, neither we nor our operating subsidiaries invent new technologies or products; rather, we depend upon the identification and investment in patents, inventions and companies that own IP through our relationships with inventors, universities, research institutions, technology companies and others. If our operating subsidiaries are unable to maintain those relationships and identify and grow new relationships, then we may not be able to identify new technology-based patent opportunities for sustainable revenue and /or revenue growth.

Our current or future relationships may not provide the volume or quality of technologies necessary to sustain our licensing, enforcement and overall business. In some cases, universities and other technology sources compete against us as they seek to develop and commercialize technologies. Universities may receive financing for basic research in exchange for the exclusive right to commercialize resulting inventions. These and other strategies employed by potential partners may reduce the number of technology sources and potential clients to whom we can market our solutions. If we are unable to maintain current relationships and sources of technology or to secure new relationships and sources of technology, such inability may have a material adverse effect on our revenues, operating results, financial condition and ability to maintain our licensing and enforcement business.

Patent Licensing and Enforcement

- *Patent Litigation Trial Dates and Related Trials*

Patent infringement trials are components of our overall patent licensing process and are one of many factors that contribute to possible future revenue generating opportunities for us. Scheduled trial dates, as promulgated by the respective court, merely provide an indication of when, in future periods, the trials may occur according to the court's scheduling calendar at a specific point in time. A court may change previously scheduled trial dates. In fact, courts often reschedule trial dates for various reasons that are unrelated to the underlying patent assets and typically for reasons that are beyond our control. While scheduled trial dates provide an indication of the timing of possible future revenue generating opportunities for us, the trials themselves represent the possible future revenue generating opportunities. These future opportunities can result in varying outcomes. In fact, it is difficult to predict the outcome of patent enforcement litigation at the trial level and outcomes can be unfavorable. It can be difficult to understand complex patented technologies, and as a result, this may lead to a higher rate of unfavorable litigation outcomes. Moreover, in the event of a favorable outcome, there is a higher rate of successful appeals in patent enforcement litigation than more standard business litigation. Such appeals are expensive and time consuming, resulting in increased costs and a potential for delayed or foregone revenue opportunities in the event of modification or reversal of favorable outcomes. Although we diligently pursue enforcement litigation, we cannot predict with reliability the decisions made by juries and trial courts. As of the date of this report, our operating subsidiaries have one pending patent infringement case with a scheduled trial date in the next six months.

- *Litigation and Licensing Expense*.

We expect patent-related legal expenses to continue to fluctuate from period to period based on the factors summarized herein, in connection with future trial dates, international enforcement, strategic patent portfolio prosecution and our current and future patent portfolio investment, prosecution, licensing and enforcement activities. The pursuit of enforcement actions in connection with our licensing and enforcement programs can involve certain risks and uncertainties, including the following:

- Increases in patent-related legal expenses associated with patent infringement litigation, including, but not limited to, increases in costs billed by outside legal counsel for discovery, depositions, economic analyses, damages assessments, expert witnesses and other consultants, re-exam and inter partes review costs, case-related audio/video presentations and other litigation support and administrative costs could increase our operating costs and decrease our profit generating opportunities;

- Our patented technologies and enforcement actions are complex and, as a result, we may be required to appeal adverse decisions by trial courts in order to successfully enforce our patents. Moreover, such appeals may not be successful;

- New legislation, regulations or rules related to enforcement actions, including any fee or cost shifting provisions, could significantly increase our operating costs and decrease our profit generating opportunities. Increased focus on the growing number of patent-related lawsuits may result in legislative changes which increase our costs and related risks of asserting patent enforcement actions. For instance, the United States House of Representatives has passed a bill that would require non-practicing entities that bring patent infringement lawsuits to pay legal costs of the defendants, if the lawsuits are unsuccessful and certain standards are not met;

- Courts may rule that our subsidiaries have violated certain statutory, regulatory, federal, local or governing rules or standards by pursuing such enforcement actions, which may expose us and our operating subsidiaries to material liabilities, which could harm our operating results and our financial position;

- The complexity of negotiations and potential magnitude of exposure for potential infringers associated with higher quality patent portfolios may lead to increased intervals of time between the filing of litigation and potential revenue events (i.e. markman dates, trial dates), which may lead to increased legal expenses, consistent with the higher revenue potential of such portfolios; and

- Fluctuations in overall patent portfolio related enforcement activities which are impacted by the portfolio intake challenges discussed above could harm our operating results and our financial position.

Critical Accounting Estimates

Our unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. Preparation of these condensed consolidated statements requires management to make judgments and estimates. Some accounting policies have a significant impact on amounts reported in these condensed consolidated financial statements. The SEC has defined a company's critical accounting policies as the ones that are most important to the portrayal of a company's financial condition and results of operations, and which require a company to make its most difficult and subjective judgments. A summary of significant accounting policies and a description of accounting policies that are considered critical may be found in the audited consolidated financial statements and notes thereto and under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies" included in our Annual Report. In addition, as set forth in Note 2 to the condensed consolidated financial statements included in this report, certain accounting policies were identified during the current period, based on activities occurring during the current period, as critical and requiring significant judgments and estimates.

Recently Adopted Accounting Pronouncements

In February 2016, FASB issued ASU 2016-02, Leases, or ASC 842, which requires a lessee to recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset. In July 2018, FASB issued ASU 2018-11, Leases, which provides an additional transition option for an entity to apply the provisions of ASC 842 by recognizing a cumulative effect adjustment at the effective date of adoption without adjusting the prior comparative periods presented. Further, in January 2019, FASB issued ASU 2019-01, Leases: Codification Improvements, which provides disclosure relief for the interim periods when adopting ASC 842. The primary impact of adopting ASC 842 for the Company was the recognition in the consolidated balance sheet of certain lease-related assets and liabilities for operating leases with terms longer than 12 months as of January 1, 2019. Such amounts were not previously accounted for in the Company's consolidated balance sheets.

The Company has adopted ASC 842, electing the practical expedient approaches, and has recognized approximately $2.1 million of right-of-use assets and an increase of $2.5 million in lease-related liabilities as of June 30, 2019.

Except as described above, the adoption of the new lease accounting standard did not have a material impact on the condensed consolidated financial statements.

Other Investments

Investment in Veritone

In connection with its previous investment in Veritone, Inc., or Veritone, in August 2016, Acacia received an aggregate total of 4,119,521 shares and warrants to purchase up to 1,120,432 shares of Veritone common stock. In fiscal year 2018, Acacia sold 2,700,000 shares of Veritone common stock at a weighted average price of $7.07 and recorded a realized loss of $19.1 million on the sale. During the three months ended June 30, 2019, Acacia sold 239,920 shares of Veritone common stock at a weighted average price of $7.30 and recorded a realized loss of $1.6 million on the sale. During the six months ended June 30, 2019, Acacia sold 867,968 shares of Veritone common stock at a weighted average price of $5.85 and recorded a realized loss of $7.2 million on the sale. Refer to Note 5 to the consolidated financial statements elsewhere herein for additional information regarding our investment in Veritone.

Investment in Miso Robotics.

In June 2017, Acacia made a $2.25 million equity investment in Miso Robotics as part of Miso Robotics' closing of $3.1 million in Series A funding. In February 2018, we made an additional strategic equity investment totaling $6.0 million in the Series B financing round for Miso Robotics. As of June 30, 2019, Acacia impaired its remaining $8.2 million investment in Miso Robotics. Refer to Note 5 to the consolidated financial statements elsewhere herein for additional information regarding our investment in Miso Robotics.

Consolidated Results of Operations

Comparison of the Results of Operations for Three and Six Months Ended June 30, 2019 and 2018

Revenues and Pretax Net Loss

	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Change $	Change %	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018	Change $	Change %
Revenues (in thousands, except percentage change values)	$ 5,460	$ 6,485	$ (1,025)	(16%)	$ 8,847	$ 68,578	$ (59,731)	(87%)
New agreements executed	1	2	(1)	(50%)	1	6	(5)	(83%)

One licensee individually accounted for 89% of revenues recognized during the three months ended June 30, 2019, and two licensees accounted for 55% and 27% of revenues recognized during the six months ended June 30, 2019. Two licensees accounted for 48% and 42% of revenues recognized during the three months ended June 30, 2018 and one licensee accounted for 87% of revenues recognized during the six months ended June 30, 2018.

For the periods presented herein, the majority of the revenue agreements executed provided for the payment of one-time, paid-up license fees in consideration for the grant of certain IP rights for patented technology rights owned by our operating subsidiaries. These rights were primarily granted on a perpetual basis, extending until the expiration of the underlying patents. Refer to "*Investments in Patent Portfolios*" above for information regarding the impact of portfolio acquisition trends on current and future licensing and enforcement related revenues.

	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Change $	Change %	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018	Change $	Change %
	(In thousands, except percentage change values)							
Loss before provision for income taxes	$ (5,748)	$ (28,221)	$ 22,473	(80%)	$ (9,832)	$ (60,141)	$ 50,309	(84%)

Cost of Revenues

Inventor Royalties, Contingent Legal Fees Expense and Other. Inventor royalties and contingent legal fee expenses fluctuate period to period based on the amount of revenues recognized each period, the terms and conditions of agreements executed each period and the mix of specific patent portfolios with varying economic terms and obligations generating revenues each period. Other operating expenses for the six months ended June 30, 2018 also included $4.0 million in other direct cost of revenues related to patent rights acquired and licensed in the first quarter of 2018.

	Three Months Ended June 30,		Change		Six Months Ended June 30,		Change	
	2019	2018	$	%	2019	2018	$	%
	(In thousands, except percentage change values)							
Inventor royalties	$ 2,623	$ 1,241	$ 1,382	111%	$ 3,976	$ 22,985	$ (19,009)	(83%)
Contingent legal fees	375	1,037	(662)	(64%)	552	16,796	(16,244)	(97%)
Patent acquisition expenses	–	–	–	–	–	4,000	(4,000)	(100%)

Litigation and Licensing Expenses - Patents

For the three months ended June 30, 2019, litigation and licensing expenses-patents decreased due to a net decrease in litigation support and third-party technical consulting expenses, as compared to the same periods in prior year. Litigation and licensing expenses-patents remained relatively consistent during the six months period ended June 30, 2019 as compared to the six months period in prior year, due to expenses associated with ongoing litigations.

Amortization of Patents

For the three months ended June 30, 2019, amortization expense decreased $4.5 million, or 85%, as compared to the three months ended June 30, 2018. For the six months ended June 30, 2019, amortization expense decreased $9.1 million, or 86%, as compared to the six months ended June 30, 2018. These decreases were due to a decrease in scheduled amortization resulting from the $28.2 million patent portfolio impairment charges previously recorded in the second quarter of 2018.

	Three Months Ended June 30,		Change		Six Months Ended June 30,		Change	
	2019	2018	$	%	2019	2018	$	%
	(In thousands, except percentage change values)							
Litigation and licensing expenses - patents	$ 1,855	$ 2,639	$ (784)	(30%)	$ 5,656	$ 5,628	$ 28	0%
Amortization of patents	818	5,278	(4,460)	(85%)	1,474	10,608	(9,134)	(86%)
Impairment of patent-related intangible assets	–	28,210	(28,210)	(100%)	–	28,210	(28,210)	(100%)

Operating Expenses

General and Administrative Expenses

	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Change $	Change %	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018	Change $	Change %
	(In thousands, except percentage change values)							
General and administrative expenses	$ 3,349	$ 5,710	$ (2,361)	(41%)	$ 7,052	$ 10,035	$ (2,983)	(30%)
Non-cash stock compensation expense - G&A	461	521	(60)	(12%)	453	1,225	(772)	(63%)
Non-cash stock compensation expense - Profits Interests (Note 9)	–	685	(685)	(100%)	–	(1,043)	1,043	(100%)
Total general and administrative expenses	$ 3,810	$ 6,916	$ (3,106)	(45%)	$ 7,505	$ 10,217	$ (2,712)	(27%)

A summary of the main drivers of the change in general and administrative expenses for the periods presented, is as follows:

	Three Months Ended June 30, 2019 vs. 2018	Six Months Ended June 30, 2019 vs. 2018
	(In thousands)	
Personnel costs and board fees	$ 406	$ 637
Variable performance-based compensation costs	(35)	(838)
Corporate, general and administrative costs	(2,898)	(3,065)
Non-cash stock compensation expense	(744)	271
Non-recurring employee severance costs	165	283
Total change in general and administrative expenses	$ (3,106)	$ (2,712)

The decreases in corporate, general and administrative costs were primarily due to prior year's higher costs relating to the 2018 proxy contest. The decrease in non-cash stock compensation expense for the three months ended June 2019 was primarily due to a $0.7 million charge for the increase in fair value of the Units for the three months ended June 30, 2018.

Other Operating Income (Expense)

Change in Fair Value of Investment, net

Acacia's investment in Veritone is recorded at fair value, and marked to market at each balance sheet date, with changes in fair value, primarily based on changes in Veritone's stock price, reflected in the statement of operations each period. Results for the three and six months ended June 30, 2019 included unrealized gains totaling $7.0 million and $13.9 million, respectively on our investment in Veritone. Results for the three and six months ended June 30, 2018 included an unrealized gain totaling $11.3 million and an unrealized loss totaling $29.8 million, respectively on our investment in Veritone. The three months ended June 30, 2019 included a realized loss of $1.6 million from the sale of 239,920 shares of Veritone stock at a weighted average price of $7.30 per share. The six months ended June 30, 2019 included a realized loss of $7.2 million from the sale of 867,968 shares of Veritone stock at a weighted average price of $5.85 per share.

Income Taxes

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Provision for income taxes (in thousands)	$ (9)	$ (285)	$ (323)	$ (476)
Effective tax rate	(0%)	(1%)	(3%)	(1%)

Tax expense for the periods presented primarily reflects the impact of state taxes and foreign withholding taxes incurred on revenue agreements executed with third-party licensees domiciled in foreign jurisdictions.

Liquidity and Capital Resources

General

Our primary sources of liquidity are cash and cash equivalents on hand generated from our operating activities. Our management believes that our cash and cash equivalent balances and anticipated cash flows from operations will be sufficient to meet our cash requirements through at least August 2020 and for the foreseeable future. We may, however, encounter unforeseen difficulties that may deplete our capital resources more rapidly than anticipated, including those set forth in our Annual Report. Any efforts to seek additional funding could be made through issuances of equity or debt, or other external financing. However, additional funding may not be available on favorable terms, or at all. The capital and credit markets have experienced extreme volatility and disruption periodically and such volatility and disruption may occur in the future. If we fail to obtain additional financing when needed, we may not be able to execute our business plans and our business, conducted by our operating subsidiaries, may suffer.

Certain of our operating subsidiaries are often required to engage in litigation to enforce their patents and patent rights. In connection with any of our operating subsidiaries' patent enforcement actions, it is possible that a defendant may request and/or a court may rule that an operating subsidiary has violated statutory authority, regulatory authority, federal rules, local court rules, or governing standards relating to the substantive or procedural aspects of such enforcement actions. In such event, a court may issue monetary sanctions against us or our operating subsidiaries or award attorney's fees and/or expenses to a defendant(s), which could be material.

Cash, Cash Equivalents and Investments

Our consolidated cash and cash equivalents and investments on hand totaled $164.9 million at June 30, 2019, compared to $165.5 million at December 31, 2018. The net change in cash and cash equivalents for the periods presented was comprised of the following:

	Six Months Ended June 30,	
	2019	2018
	(In thousands)	
Net cash provided by (used in):		
Operating activities	$ (66,026)	$ 9,631
Investing activities	625	(41,495)
Financing activities	79	(4,590)

Cash Flows from Operating Activities

Cash receipts from licensees for the six months ended June 30, 2019 decreased 60% to $27.1 million, as compared to $67.8 million in the comparable 2018 period, due to a decrease in revenue and the net impact of the timing of cash receipts from licensees. Cash outflows from operations, excluding the impact of purchases and maturities of trading securities, for the six months ended June 30, 2019 decreased 49% to $29.4 million, as compared to $58.1 million in the comparable 2018 period, primarily due to a decrease in net loss and the net impact of the timing of related payments of inventor royalties and contingent legal fees and the timing of payments to other third-parties in the ordinary course, for the same periods. Refer to *"Working Capital"* below for additional information.

Cash Flows from Investing Activities

Cash flows from investing activities and related changes were comprised of the following for the periods presented (in thousands):

	Six Months Ended June 30,	
	2019	2018
	(In thousands)	
Patent acquisition costs	$ (4,420)	$ –
Sale of investment[1]	5,045	–
Investments in Investees	–	(7,000)
Net sale of short-term investments	–	(34,495)

[1] Refer to Note 5 for additional information

Working Capital

Working capital at June 30, 2019 decreased to $163.5 million, compared to $170.4 million at December 31, 2018. Consolidated accounts receivable from licensees decreased to $15.3 million at June 30, 2019, compared to $32.9 million at December 31, 2018. Accounts payable and accrued expenses increased to $9.5 million, compared to $8.3 million at December 31, 2018. Consolidated royalties and contingent legal fees payable decreased to $10.5 million at June 30, 2019, compared to $22.7 million at December 31, 2018.

The majority of royalties and contingent legal fees payable are scheduled to be paid through the third quarter of 2019, subsequent to receipt by us of the related fee payments from licensees, in accordance with the underlying contractual arrangements.

Off-Balance Sheet Arrangements

As of June 30, 2019, we did not have any relationships with any unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established to facilitate any off-balance sheet arrangements or for any other contractually specified purposes.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The primary objective of our short-term investment activities is to preserve principal while concurrently maximizing the income we receive from our short-term investments without significantly increasing risk. Some of the securities that we invest in may be subject to interest rate risk and/or market risk. This means that a change in prevailing interest rates, with respect to interest rate risk, or a change in the value of the United States equity markets, with respect to market risk, may cause the principal amount or market value of the short-term investments to fluctuate. For example, if we hold a security that was issued with a fixed interest rate at the then-prevailing rate and the prevailing interest rate later rises, the current value of the principal amount of our investment may decline. To minimize these risks in the future, we intend to maintain our portfolio of cash equivalents and short-term investments in a variety of securities, including commercial paper, money market funds, high-grade corporate bonds, government and non-government debt securities and certificates of deposit.

At June 30, 2019 and December 31, 2018, our debt trading securities were comprised of AAA rated money market funds that invest in first-tier only securities, which primarily include domestic commercial paper, securities issued or guaranteed by the U.S. government or its agencies, U.S. bank obligations, and fully collateralized repurchase agreements (included in cash and cash equivalents in the accompanying consolidated balance sheets), and direct investments in short term, highly liquid, investment grade, U.S. government and corporate securities (included in “Trading securities – debt” in the accompanying consolidated balance sheets).

In general, money market funds are not subject to market risk because the interest paid on such funds fluctuates with the prevailing interest rate. Accordingly, a 100 basis point increase in interest rates or a 10% decline in the value of the United States equity markets would not be expected to have a material impact on the value of such money market funds. Investments in U.S. government and corporate fixed income securities are subject to interest rate risk and will decline in value if interest rates increase. However, due to the relatively short duration of our debt trading securities portfolio, an immediate 100 basis point increase in interest rates would have no material impact on our financial condition, results of operations or cash flows. Declines in interest rates over time will, however, reduce our interest income.

Investment Risk

We are exposed to investment risks related to changes in the underlying financial condition of certain of our equity investments in these technology companies. The fair value of these investments can be significantly impacted by the risk of adverse changes in securities markets generally, as well as risks related to the performance of the companies whose securities we have invested in, risks associated with specific industries, and other factors. These investments are subject to significant fluctuations in fair value due to the volatility of the securities markets and of the underlying businesses. As of June 30, 2019 and December 31, 2018, the carrying value of our common stock and warrants in public and private companies was $20.0 million and $18.7 million, respectively. We record our common stock and warrant investments in publicly traded companies at fair value, which are subject to market price volatility, and represents $20.0 million and $10.5 million of our assets as of June 30, 2019 and December 31, 2018, respectively. As of December 31, 2018, a hypothetical 10% adverse change in the market price of Veritone's publicly traded common stock would have resulted in a decrease of approximately $540,000 in the fair value of our equity and equity warrant investments in Veritone and a decrease of approximately $301,000 in our other equity investments. As of June 30, 2019, a hypothetical 10% adverse change in the market price of Veritone's publicly traded common stock would have resulted in a decrease of approximately $1.1 million in the fair value of our equity and equity warrant investments in Veritone, and a decrease of approximately $1.1 million in our other equity investments. We evaluate our equity and equity warrant investments in private companies for impairment when events and circumstances indicate that the decline in fair value of such assets below the carrying value is other-than temporary. Our analysis includes a review of recent operating results and trends, recent sales/acquisitions of the investee securities, and other publicly available data. The current global economic climate provides additional uncertainty. Valuations of private companies are inherently more complex due to the lack of readily available market data. As such, we believe that market sensitivities are not practicable for our private company equity investments.

Item 4. Controls and Procedures

(i). Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Intellectual Property Officer and Corporate Controller, we conducted an evaluation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act.

Based on this evaluation, our Chief Intellectual Property Officer and Corporate Controller concluded that, as of June 30, 2019, our disclosure controls and procedures were effective to ensure that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Intellectual Property Officer and Corporate Controller, as appropriate to allow timely decisions regarding required disclosure, and that such information is recorded, processed, summarized and reported within the time periods prescribed by the SEC.

(ii). Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during our last fiscal quarter (the quarter ended June 30, 2019) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

(iii). Inherent Limitations on Effectiveness of Controls

Our management, including our Chief Intellectual Property Officer and Corporate Controller, does not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been detected. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of the effectiveness of controls to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

PART II--OTHER INFORMATION

Item 1. Legal Proceedings

On June 17, 2015, Celltrace Communications Ltd. (“Celltrace”) filed a lawsuit against Acacia in U.S. District Court for the Southern District of New York, Case No. 1:15-cv-04746, alleging, among other things, significant damages for alleged breach of contract, unjust enrichment and fraud. Acacia disputes the allegations and does not believe that Celltrace is entitled to any damages. Acacia successfully moved to compel arbitration of the dispute, and the District Court stayed the litigation pending arbitration before the International Court of Arbitration for the International Chamber of Commerce (the “ICC”). Celltrace appealed the decision to the U.S. Court of Appeals for the Second Circuit, which denied the appeal. Celltrace filed its request for arbitration of the claims with the ICC on November 28, 2016. Acacia filed an answer denying all allegations of wrongdoing and asserting affirmative defenses. A tribunal was appointed to preside over the arbitration and conducted its first case management conference on June 26, 2017. The parties conducted discovery and submitted their cases in chief to the tribunal in a series of written submissions per the tribunal’s orders between January 2018 and December 2018. The tribunal held an evidentiary hearing with live witness testimony in New York City between February 4, 2019 and February 13, 2019. At the end of the hearing, the tribunal set a schedule for post-hearing briefing by the parties, which concluded in April 2019. Acacia continues to vigorously contest all allegations of wrongdoing. On May 15, 2019, the tribunal gave notice to the parties that it would render a final award by July 31, 2019. On July 22, 2019, the tribunal extended its deadline to render a final award to August 30, 2019. As of this writing, the tribunal has not yet issued a final award.

Item 1A. Risk Factors

An investment in our common stock involves risks. Before making an investment decision, you should carefully consider all of the information in this Quarterly Report on Form 10-Q, including in the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Part I, Item 2 in this Quarterly Report on Form 10-Q, as well as our condensed consolidated financial statements and the accompanying notes thereto. In addition, you should carefully consider the risks and uncertainties described below, and in the section entitled “Risk Factors” in Part I, Item 1A of our Annual Report, as well as in our other public filings with the SEC. If any of the identified risks are realized, our business, financial condition, operating results and prospects could be materially and adversely affected. In that case, the trading price of our common stock may decline, and you could lose all or part of your investment. In addition, other risks of which we are currently unaware, or which we do not currently view as material, could have a material adverse effect on our business, financial condition, operating results and prospects.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

EXHIBIT NUMBER	EXHIBIT
3.1#	Amended and Restated Certificate of Incorporation (as updated through July 29, 2019 and currently in effect)
3.2	Second Amended and Restated Bylaws (incorporated by reference to Acacia Research Corporation's Current Report on Form 8-K filed on July 25, 2019 (File No. 001-37721)
31.1#	Certification of Principal Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934
31.2#	Certification of Principal Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934
32.1**#	Certification of Principal Executive Officer Pursuant to Rule 13a-14(b)/15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350
32.2**#	Certification of Principal Financial Officer Pursuant to Rule 13a-14(b)/15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350
101#	Interactive Data Files Pursuant to Rule 405 of Regulation S-T

\# Filed herewith.

** The certifications attached as Exhibits 32.1 and 32.2 that accompany this Quarterly Report pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, shall not be deemed "filed" by the Registrant for purposes of Section 18 of the Exchange Act and are not to be incorporated by reference into any of the Registrant's filings under the Securities Act or the Exchange Act, irrespective of any general incorporation language contained in any such filing.

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.

ACACIA RESEARCH CORPORATION

Date: August 9, 2019

/s/ Marc Booth
By: **Marc W. Booth**
Chief Intellectual Property Officer
(Principal Executive Officer and Duly Authorized Signatory)

Date: August 9, 2019

/s/ Li Yu
By: **Li Yu**
Corporate Controller
(Principal Financial Officer)

AMENDED AND RESTATED
CERTIFICATE OF INCORPORATION OF
ACACIA RESEARCH CORPORATION

Acacia Research Corporation, a corporation organized and existing under the laws of the State of Delaware (the Corporation), certifies that:

A. The name of the Corporation is Acacia Research Corporation. The Corporation’s original Certificate of Incorporation was filed with the Secretary of State of the State of Delaware on October 8, 1999.

B. This Amended and Restated Certificate of Incorporation was duly adopted in accordance with Sections 242 and 245 of the General Corporation Law of the State of Delaware, and restated, integrates, and further amends the provisions of the Corporations Certificate of Incorporation.

C. The text of the Amended and Restated Certificate of Incorporation is amended and restated to read as set forth in EXHIBIT A attached hereto.

IN WITNESS WHEREOF, Acacia Research Corporation has caused this Amended and Restated Certificate of Incorporation to be signed by Jennifer Graff, a duly authorized officer of the Corporation, on July 29, 2019.

/s/ Jennifer Graff
Jennifer Graff
Secretary

<u>EXHIBIT A</u>

ARTICLE I
NAME

The name of the corporation is Acacia Research Corporation (the "Corporation").

ARTICLE II
ADDRESS OF REGISTERED OFFICE;
NAME OF REGISTERED AGENT

The address of the registered office of the Corporation in the State of Delaware 32 W. Loockerman Street, Suite 201, Dover, County of Kent, Delaware. The name of its registered agent at such address is Registered Agent Solutions, Inc.

ARTICLE III
PURPOSE

The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the Delaware General Corporation Law (the "DGCL").

ARTICLE IV
CAPITAL STOCK

SECTION 1. AUTHORIZATION. The aggregate number of shares of stock which the Corporation shall have authority to issue is one hundred and ten million (110,000,000) shares, of which one hundred million shares shall be shares of common stock having a par value of $0.001 per share (the "Common Stock"), and ten million (10,000,000) shares shall be shares of preferred stock having a par value of $0.001 per share (the "Preferred Stock") and issuable in one or more series as hereinafter provided. For purposes of this ARTICLE IV, references to the "Board of Directors" shall refer to the Board of Directors of the Corporation, as established in accordance with ARTICLE V of the certificate of incorporation of the Corporation, and references to "the Certificate of Incorporation" shall refer to this Amended and Restated Certificate of Incorporation as the same may be amended from time to time. The number of authorized shares of any class or classes of capital stock of the Corporation may be increased or decreased (but not below the number of shares thereof then outstanding) by the affirmative vote of the holders of a majority of the voting power of the stock of the Corporation entitled to vote generally in the election of directors.

SECTION 2. COMMON STOCK. The voting powers, preferences and relative, participating, optional or other special rights of the Common Stock, and the qualifications and restrictions thereon, shall be as follows in this Section 2.

2.1 Dividends. Subject to the rights, preferences, privileges, restrictions and other matters pertaining to the Preferred Stock that may at that time be outstanding, the holders of the Common Stock shall be entitled to receive, when, as and if declared by the Board of Directors, out of any assets of the Corporation legally available therefore, such dividends as may be declared from time to time by the Board of Directors.

2.2 Voting Rights. Except as otherwise required by law, or as otherwise fixed by resolution or resolutions of the Board of Directors with respect to one or more series of Preferred Stock, the entire voting power and all voting rights shall be vested exclusively in the Common Stock, and each stockholder of the Corporation who at the time possesses voting power for any purpose shall be entitled to one vote for each share of such stock standing in his or her name on the books of the Corporation.

2.3 Liquidation Rights. In the event of any liquidation, dissolution or winding up (either voluntary or involuntary) of the Corporation, the holders of shares of Common Stock shall be entitled to receive the assets and funds of the Corporation available for distribution after payments to creditors and to the holders of any Preferred Stock of the Corporation that may at the time be outstanding, in proportion to the number of shares held by them. Neither the merger nor consolidation of the Corporation into or with any other corporation, nor a sale, transfer or lease of all or any part of the assets of the Corporation, shall, alone, be deemed a liquidation or winding up of the Corporation or cause the dissolution of the Corporation, for purposes of this Section 2.3.

SECTION 3. PREFERRED STOCK. The Preferred Stock may be issued from time to time in one or more series, each with such distinctive designation as may be stated in the Certificate of Incorporation or in any amendment hereto, or in a resolution or resolutions providing for the issue of such stock from time to time adopted by the Board of Directors or a duly authorized committee thereof. The resolution or resolutions providing for the issue of shares of a particular series shall fix, subject to applicable laws and the provisions of the Certificate of Incorporation, for each such series the number of shares constituting such series and the designation and the voting powers, preferences and relative, participating, optional or other special rights and the qualifications, limitations or restrictions thereof, including, without limiting the generality of the foregoing, such provisions as may be desired concerning voting, redemption, dividends, dissolution or the distribution of assets, conversion or exchange, and such other subjects or matters as may be fixed by the Board of Directors or a duly authorized committee thereof under the DGCL.

ARTICLE V
BOARD OF DIRECTORS

SECTION 1. NUMBER OF DIRECTORS AND THEIR ELECTION. The number of directors of the Corporation shall be fixed from time to time by a by-law of the Corporation or amendment thereof duly adopted by the Board of Directors. Except as otherwise provided for or fixed pursuant to the provisions of ARTICLE V of this Certificate of Incorporation or any resolution or resolutions of the Board of Directors providing for the issuance of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation to elect additional directors under specified circumstances, the number of directors shall be determined by the Board of Directors in accordance with the By-laws of the Corporation. Election of directors need not be by written ballot, unless so provided in the By-laws of the Corporation.

SECTION 2. POWERS OF THE BOARD OF DIRECTORS. In furtherance, and not in limitation, of the powers conferred by the laws of the State of Delaware, the Board of Directors is expressly authorized to adopt, alter, amend and repeal the By-laws of the Corporation, subject to the power of the stockholders of the Corporation to alter or repeal any by-law whether adopted by them or otherwise; provided, however, that the affirmative vote of 66 and 2/3 percent of the voting power of the capital stock of the Corporation entitled to vote thereon shall be required for stockholders to adopt, amend, alter or repeal any provision of the By-laws of the Corporation.

SECTION 3. TERM. The directors, other than those who may be elected by the holders of Preferred Stock or any other class or series of stock having a preference over the Common Stock as to dividends or upon liquidation pursuant to the terms of this Certificate of Incorporation or any resolution or resolutions providing for the issuance of such class or series of stock adopted by the Board of Directors, shall be elected by stockholders at each annual meeting of stockholders to hold office for a term expiring at the next annual meeting of stockholders and until his or her successor shall be elected and shall qualify, subject, however, to prior death, resignation, retirement, disqualification or removal from office.

SECTION 4. VACANCIES. Any newly-created directorship resulting from an increase in the authorized number of directors or any vacancies in the Board of Directors occurring by reason of death, resignation, retirement, disqualification or removal may be filled by a majority of the remaining directors, though less than a quorum, or by a sole remaining director. A director appointed in accordance with the preceding sentence shall hold office for the remainder of the full term expiring at the next annual meeting of the stockholders and until his or her successor shall be elected and shall qualify, subject, however, to prior death, resignation, retirement, disqualification or removal from office.

ARTICLE VI
STOCKHOLDER ACTIONS

SECTION 1. MEETINGS AND RECORDS. Meetings of stockholders may be held within or without the State of Delaware, as the By-laws of the Corporation may provide. The books of the Corporations may be kept (subject to the DGCL) outside of the State of Delaware at such place or places as may be designated from time to time by the Board of Directors or in the By-laws of the Corporation.

SECTION 2. SPECIAL MEETINGS. Special meetings of stockholders may be called at any time by the Board of Directors or by the Chairman of the Board of Directors, or the President, or the Secretary of the Corporation upon the written request of one or more stockholders of record of the Corporation that hold at least twenty-five percent (25%) in voting power of the outstanding shares of stock of the Company and who have delivered such requests in accordance with and subject to the procedures and conditions and any other provisions set forth in the By-laws of the Corporation (as amended from time to time), including any limitations set forth in the By-laws of the Corporation on the ability to make such a request for such a special meeting.

SECTION 3. WRITTEN CONSENTS. No action that is required or permitted to be taken by the stockholders of the Corporation at any annual or special meeting of the stockholders may be effected by written consent of the stockholders in lieu of a meeting of stockholders.

ARTICLE VII
LIMITATION ON LIABILITY OF DIRECTORS

No person shall be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, including without limitation for serving on a committee of the Board of Directors, except to the extent such exemption from liability or limitation thereof is not permitted under the DGCL as the same exists or hereafter may be amended. If the DGCL is amended after the date of the filing of this Certificate of Incorporation to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of a director of the Corporation shall be eliminated or limited to the fullest extent permitted by the DGCL as so amended. Any amendment, repeal or modification of this ARTICLE VII shall not adversely affect any right or protection of a director of the Corporation existing hereunder with respect to any act or omission occurring prior to such amendment, repeal or modification.

ARTICLE VIII
INDEMNIFICATION

SECTION 1. The Corporation may indemnify to the fullest extent permitted by law any person made or threatened to be made a party to an action or proceeding, whether criminal, civil, administrative or investigative, by reason of the fact that such person, his or her testator or intestate is or was a director, officer or employee of the Corporation or any predecessor of the Corporation or serves or served at any other enterprise as a director, officer or employee at the request of the Corporation or any predecessor to the Corporation. No amendment, repeal or modification of this ARTICLE VIII by the stockholders shall adversely affect any right or protection of a director of the Corporation existing by virtue of this ARTICLE VIII at the time of such amendment, repeal or modification.

ARTICLE IX

AMENDMENT OF CERTIFICATE OF INCORPORATION

The Corporation hereby reserves the right from time to time to amend, alter, change or repeal any provision contained in the Certificate of Incorporation, and other provisions authorized by the laws of the State of Delaware at the time in force may be added or inserted, in the manner now or hereafter prescribed by law, and all rights, preferences, and privileges of whatsoever nature conferred upon the stockholders, directors or any other persons whomsoever by or pursuant to this Certificate of Incorporation in its present form or as hereafter amended are granted subject to the right reserved in this ARTICLE IX.

ARTICLE X

SECTION 1. DEFINITIONS.

As used in this ARTICLE X, the following capitalized terms have the following meanings when used herein with initial capital letters (and any references to any portions of Treas. Reg. § 1.382-2T shall include any successor provisions):

(a) “4.899-percent Transaction” means any Transfer described in clause (a) or (b) of Section 2 of this ARTICLE X.

(b) “4.899-percent Stockholder” means a Person or group of Persons that is a “5-percent stockholder” of the corporation pursuant to Treas. Reg. § 1.382-2T(g), as applied by replacing “5-percent” with “4.899-percent” and “five percent” with “4.899 percent,” where applicable.

(c) “Agent” has the meaning set forth in Section 5 of this ARTICLE X.

(d) “Code” means the United States Internal Revenue Code of 1986, as amended. For the avoidance of doubt, Code also includes “An Act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018,” (PL 115-97).

(e) “Corporation Security” or “Corporation Securities” means (i) any Stock, (ii) shares of preferred stock issued by the Corporation (other than preferred stock described in § 1504(a)(4) of the Code), and (iii) warrants, rights, or options (including options within the meaning of Treas. Reg. § 1.382-2T(h)(4)(v) or Treas. Reg. § 1.382-4(d)(9)) to purchase securities of the Corporation.

(f) “Effective Date” means the date of filing of this Certificate of Incorporation of the Corporation with the Secretary of State of the State of Delaware.

(g) “Excess Securities” has the meaning set forth in Section 4 of this ARTICLE X.

(h) “Expiration Date” means the earliest of (i) the close of business on the date that is the third anniversary of the Effective Date, (ii) the repeal of Section 382 of the Code or any successor statute if the Board of Directors determines that this ARTICLE X is no longer necessary or desirable for the preservation of Tax Benefits, (iii) the close of business on the first day of a taxable year of the Corporation as to which the Board of Directors determines that no Tax Benefits may be carried forward, and (iv) such date as the Board of Directors shall fix in accordance with Section 12 of this ARTICLE X.

(i) “Percentage Stock Ownership” means the percentage Stock Ownership interest of any Person or group (as the context may require) for purposes of Section 382 of the Code as determined in accordance with Treas. Reg. § 1.382-2(a)(3), Treas. Reg. § 1.382-2T(g), (h), (j) and (k) and Treas. Reg. § 1.382-4, or any successor provisions and other pertinent Internal Revenue Service guidance.

(j) “Person” means any individual, partnership, joint venture, limited liability company, firm, corporation, unincorporated association or organization, trust or other entity or any group of such “Persons” having a formal or informal understanding among themselves to make a “coordinated acquisition” of shares within the meaning of Treas. Reg. § 1.382-3(a)(1) or who are otherwise treated as an “entity” within the meaning of Treas. Reg. § 1.382-3(a)(1), and shall include any successor (by merger or otherwise) of any such entity or group.

(k) “Prohibited Distributions” means any and all dividends or other distributions paid by the Corporation with respect to any Excess Securities received by a Purported Transferee.

(l) “Prohibited Transfer” means any Transfer or purported Transfer of Corporation Securities to the extent that such Transfer is prohibited and/or void under this ARTICLE X.

(m) “Public Group” has the meaning set forth in Treas. Reg. § 1.382-2T(f)(13).

(n) “Purported Transferee” has the meaning set forth in Section 4 of this ARTICLE X.

(o) “Remedial Holder” has the meaning set forth in Section 7 of this ARTICLE X.

(p) “Stock” means any interest that would be treated as “stock” of the Corporation pursuant to Treas. Reg. § 1.382-2T(f)(18).

(q) “Stock Ownership” means any direct or indirect ownership of Stock, including any ownership by virtue of application of constructive ownership rules, with such direct, indirect and constructive ownership determined under the provisions of Section 382 of the Code and the Treasury Regulations thereunder, including, for the avoidance of doubt, any ownership whereby a Person owns Stock pursuant to a “coordinated acquisition” treated as a single “entity” as defined in Treas. Reg. § 1.382-3(a)(1), or such Stock is otherwise aggregated with Stock owned by such Person pursuant to the provisions of Section 382 of the Code and the Treasury Regulations thereunder.

(r) “Tax Benefits” means the net operating loss carry forwards, capital loss carry forwards, general business credit carry forwards, alternative minimum tax credit carry forwards, foreign tax credit carry forwards, disallowed net business interest expense carry forwards under Section 163(j), any credits under Section 53, and any other item that may reduce or result in any credit against any income taxes owed by the Corporation or any of its subsidiaries or refundable credits, including, but not limited to, any item subject to limitation under Section 382 or Section 383 of the Code and the Treasury Regulations promulgated thereunder, and any loss or deduction attributable to a “net unrealized built-in loss” within the meaning of Section 382 of the Code and the Treasury Regulations promulgated thereunder.

(s) “Transfer” means, any direct or indirect sale, transfer, assignment, conveyance, pledge or other disposition, event or occurrence or other action taken by a Person, other than the Corporation, that alters the Percentage Stock Ownership of any Person or group, including, a transfer by gift or by operation of law. A Transfer also shall include the creation or grant of an option (including an option within the meaning of Treas. Reg. §1.382-4(d)). For the avoidance of doubt, a Transfer shall not include the creation or grant of an option by the Corporation, nor shall a Transfer include the issuance of Stock by the Corporation.

(t) “Transferee” means any Person to whom Corporation Securities are Transferred.

(u) “Treasury Regulations” or “Treas. Reg.” means the regulations, including temporary regulations or any successor regulations, promulgated under the Code, as amended from time to time.

SECTION 2. TRANSFER AND OWNERSHIP RESTRICTIONS. In order to preserve the Tax Benefits, from and after the Effective Date any attempted Transfer of Corporation Securities prior to the Expiration Date and any attempted Transfer of Corporation Securities pursuant to an agreement entered into prior to the Expiration Date shall be prohibited and void ab initio to the extent that, as a result of such Transfer (or any series of Transfers of which such Transfer is a part), either (a) any Person or Persons would become a 4.899-percent Stockholder or (b) the Percentage Stock Ownership in the Corporation of any 4.899-percent Stockholder would be increased. The prior sentence is not intended to prevent Corporation Securities from being DTC-eligible and shall not preclude the settlement of any transaction in Corporation Securities entered into through the facilities of a national securities exchange; provided, however, that the Corporation Securities and parties involved in such transaction shall remain subject to the provisions of this ARTICLE X in respect of such transaction.

SECTION 3. EXCEPTIONS.

(a) Notwithstanding anything to the contrary herein, Transfers to a Public Group (including a new Public Group created under Treas. Reg. § 1.382-2T (j)(3) (i)) shall be permitted.

(b) The restrictions set forth in Section 2 of this ARTICLE X shall not apply to an attempted Transfer that is a 4.899-percent Transaction if the transferor or the Transferee obtains the written approval of the Board of Directors or a duly authorized committee thereof. As a condition to granting its approval pursuant to this Section 3 of this ARTICLE X, the Board of Directors may, in its discretion, require (at the expense of the transferor and/or Transferee) an opinion of counsel selected by the Board of Directors that the Transfer shall not result in a limitation on the use of the Tax Benefits as a result of the application of Section 382 of the Code; provided that the Board of Directors may grant such approval notwithstanding the effect of such approval on the Tax Benefits if it determines that the approval is in the best interests of the Corporation. The Board of Directors may grant its approval in whole or in part with respect to such Transfer and may impose any conditions that it deems reasonable and appropriate in connection with such approval, including, without limitation, restrictions on the ability of any Transferee to Transfer Stock acquired through a Transfer. Approvals of the Board of Directors hereunder may be given prospectively or retroactively. The Board of Directors, to the fullest extent permitted by law, may exercise the authority granted by this ARTICLE X through duly authorized officers or agents of the Corporation. Nothing in this Section 3 of this ARTICLE X shall be construed to limit or restrict the Board of Directors in the exercise of its fiduciary duties under applicable law.

SECTION 4. EXCESS SECURITIES.

(a) No employee or agent of the Corporation shall record any Prohibited Transfer, and the purported transferee of such a Prohibited Transfer (the "Purported Transferee") shall not be recognized as a stockholder of the Corporation for any purpose whatsoever in respect of the Corporation Securities which are the subject of the Prohibited Transfer (the "Excess Securities"). The Purported Transferee shall not be entitled, with respect to such Excess Securities, to any rights of stockholders of the Corporation, including, without limitation, the right to vote such Excess Securities and to receive dividends or distributions, whether liquidating or otherwise, in respect thereof, if any, and the Excess Securities shall be deemed to remain with the transferor unless and until the Excess Securities are transferred to the Agent pursuant to Section 5 of this ARTICLE X or until an approval is obtained under Section 3 of this ARTICLE X. After the Excess Securities have been acquired in a Transfer that is not a Prohibited Transfer, the Corporation Securities shall cease to be Excess Securities. For this purpose, any Transfer of Excess Securities not in accordance with the provisions of this Section 4 or Section 5 of this ARTICLE X shall also be a Prohibited Transfer.

(b) The Corporation may require as a condition to the registration of the Transfer of any Corporation Securities or the payment of any distribution on any Corporation Securities that the proposed Transferee or payee furnish to the Corporation all information reasonably requested by the Corporation with respect to its direct or indirect ownership interests in such Corporation Securities. The Corporation may make such arrangements or issue such instructions to its stock transfer agent as may be determined by the Board of Directors to be necessary or advisable to implement this ARTICLE X, including, without limitation, authorizing such transfer agent to require an affidavit from a Purported Transferee regarding such Person's actual and constructive ownership of Stock and other evidence that a Transfer will not be prohibited by this ARTICLE X as a condition to registering any transfer.

SECTION 5. TRANSFER TO AGENT. If the Board of Directors determines that a Transfer of Corporation Securities constitutes a Prohibited Transfer, then, upon written demand by the Corporation sent within thirty days of the date on which the Board of Directors determines that the attempted Transfer would result in Excess Securities, the Purported Transferee shall transfer or cause to be transferred any certificate or other evidence of ownership of the Excess Securities within the Purported Transferee's possession or control, together with any Prohibited Distributions, to an agent designated by the Board of Directors (the "Agent"). The Agent shall thereupon sell to a buyer or buyers, which may include the Corporation, the Excess Securities transferred to it in one or more arm's-length transactions (on the public securities market on which such Excess Securities are traded, if possible, or otherwise privately); provided, however, that any such sale must not constitute a Prohibited Transfer and provided, further, that the Agent shall effect such sale or sales in an orderly fashion and shall not be required to effect any such sale within any specific time frame if, in the Agent's discretion, such sale or sales would disrupt the market for the Corporation Securities or otherwise would adversely affect the value of the Corporation Securities. If the Purported Transferee has resold the Excess Securities before receiving the Corporation's demand to surrender Excess Securities to the Agent, the Purported Transferee shall be deemed to have sold the Excess Securities for the Agent, and shall be required to transfer to the Agent any Prohibited Distributions and proceeds of such sale, except to the extent that the Corporation grants written permission to the Purported Transferee to retain a portion of such sale proceeds not exceeding the amount that the Purported Transferee would have received from the Agent pursuant to Section 6 of this ARTICLE X if the Agent rather than the Purported Transferee had resold the Excess Securities.

SECTION 6. APPLICATION OF PROCEEDS AND PROHIBITED DISTRIBUTIONS. The Agent shall apply any proceeds of a sale by it of Excess Securities and, if the Purported Transferee has previously resold the Excess Securities, any amounts received by it from a Purported Transferee, together, in either case, with any Prohibited Distributions, as follows: (i) first, such amounts shall be paid to the Agent to the extent necessary to cover its costs and expenses incurred in connection with its duties hereunder; (ii) second, any remaining amounts shall be paid to the Purported Transferee, up to the amount paid by the Purported Transferee for the Excess Securities (or the fair market value at the time of the Transfer, in the event the purported Transfer of the Excess Securities was, in whole or in part, a gift, inheritance or similar Transfer) which amount (or fair market value) shall be determined at the discretion of the Board of Directors; and (iii) third, any remaining amounts shall be paid to one or more organizations selected by the Board of Directors which is described under Section 501(c)(3) of the Code (or any comparable successor provision) and contributions to which are eligible for deduction under each of Sections 170(b)(1)(A), 2055 and 2552 of the Code. The Purported Transferee of Excess Securities shall have no claim, cause of action or any other recourse whatsoever against any transferor of Excess Securities. The Purported Transferee's sole right with respect to such shares shall be limited to the amount payable to the Purported Transferee pursuant to this Section 6 of this ARTICLE X. In no event shall the proceeds of any sale of Excess Securities pursuant to this Section 6 of this ARTICLE X inure to the benefit of the Corporation or the Agent, except to the extent used to cover costs and expenses incurred by Agent in performing its duties hereunder.

SECTION 7. MODIFICATION OF REMEDIES FOR CERTAIN INDIRECT TRANSFERS. In the event of any Transfer that does not involve a transfer of Corporation Securities within the meaning of Delaware law but that would cause a 4.899-percent Stockholder to violate a restriction on Transfers provided for in this ARTICLE X, the application of Sections 5 and 6 of this ARTICLE X shall be modified as described in this Section 7 of this ARTICLE X. In such case, no such 4.899-percent Stockholder shall be required to dispose of any interest that is not a Corporation Security, but such 4.899-percent Stockholder and/or any Person whose ownership of Corporation Securities is attributed to such 4.899-percent Stockholder (such 4.899-percent Stockholder or other Person, a "Remedial Holder") shall be deemed to have disposed of and shall be required to dispose of sufficient Corporation Securities (which Corporation Securities shall be disposed of in the inverse order in which they were acquired) to cause such 4.899-percent Stockholder, following such disposition, not to be in violation of this ARTICLE X. Such disposition shall be deemed to occur simultaneously with the Transfer giving rise to the application of this provision, and such number of Corporation Securities that are deemed to be disposed of shall be considered Excess Securities and shall be disposed of through the Agent as provided in Sections 5 and 6 of this ARTICLE X, except that the maximum aggregate amount payable to a Remedial Holder in connection with such sale shall be the fair market value of such Excess Securities at the time of the purported Transfer. A Remedial Holder shall not be entitled, with respect to such Excess Securities, to any rights of stockholders of the Corporation, including, without limitation, the right to vote such Excess Securities and to receive dividends or distributions, whether liquidating or otherwise, in respect thereof, if any, following the time of the purported Transfer. All expenses incurred by the Agent in disposing of such Excess Securities shall be paid out of any amounts due such 4.899-percent Stockholder or such other Person. The purpose of this Section 7 of this ARTICLE X is to extend the restrictions in Sections 2 and 5 of this ARTICLE X to situations in which there is a 4.899-percent Transaction without a direct Transfer of Corporation Securities, and this Section 7 of this ARTICLE X, along with the other provisions of this ARTICLE X, shall be interpreted to produce the same results, with differences as the context requires, as a direct Transfer of Corporation Securities.

SECTION 8. LEGAL PROCEEDINGS; PROMPT ENFORCEMENT. If the Purported Transferee fails to surrender the Excess Securities or the proceeds of a sale thereof, in either case, with any Prohibited Distributions, to the Agent within thirty days from the date on which the Corporation makes a written demand pursuant to Section 5 of this ARTICLE X (whether or not made within the time specified in Section 5 of this ARTICLE X), then the Corporation may take such actions as it deems appropriate to enforce the provisions hereof, including the institution of legal proceedings to compel the surrender. Nothing in this Section 8 of this ARTICLE X shall (i) be deemed inconsistent with any Transfer of the Excess Securities provided in this ARTICLE X being void ab initio, (ii) preclude the Corporation in its discretion from immediately bringing legal proceedings without a prior demand or (iii) cause any failure of the Corporation to act within the time periods set forth in Section 5 of this ARTICLE X to constitute a waiver or loss of any right of the Corporation under this ARTICLE X. The Board of Directors may authorize such additional actions as it deems advisable to give effect to the provisions of this ARTICLE X.

SECTION 9. LIABILITY. To the fullest extent permitted by law, any stockholder subject to the provisions of this ARTICLE X who knowingly violates the provisions of this ARTICLE X and any Persons controlling, controlled by or under common control with such stockholder shall be jointly and severally liable to the Corporation for, and shall indemnify and hold the Corporation harmless against, any and all damages suffered as a result of such violation, including but not limited to damages resulting from a reduction in, or elimination of, the Corporation's ability to utilize its Tax Benefits, and attorneys' and auditors' fees incurred in connection with such violation.

SECTION 10. OBLIGATION TO PROVIDE INFORMATION. As a condition to the registration of the Transfer of any Stock, any Person who is a beneficial, legal or record holder of Stock, and any proposed Transferee and any Person controlling, controlled by or under common control with the proposed Transferee, shall provide such information as the Corporation may request from time to time in order to determine compliance with this ARTICLE X or the status of the Tax Benefits of the Corporation.

SECTION 11. LEGENDS. The Board of Directors may require that any certificates issued by the Corporation evidencing ownership of shares of Stock that are subject to the restrictions on transfer and ownership contained in this ARTICLE X bear the following legend:

"THE CERTIFICATE OF INCORPORATION OF THE COMPANY CONTAINS RESTRICTIONS PROHIBITING THE TRANSFER (AS DEFINED IN THE CERTIFICATE OF INCORPORATION) OF STOCK OF THE COMPANY (INCLUDING THE CREATION OR GRANT OF CERTAIN OPTIONS, RIGHTS AND WARRANTS) WITHOUT THE PRIOR AUTHORIZATION OF THE BOARD OF DIRECTORS OF THE COMPANY (THE "BOARD OF DIRECTORS") IF SUCH TRANSFER AFFECTS THE PERCENTAGE OF STOCK OF THE CORPORATION (WITHIN THE MEANING OF Section 382 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE") AND THE TREASURY REGULATIONS PROMULGATED THEREUNDER) THAT IS TREATED AS OWNED BY A 4.899-PERCENT STOCKHOLDER (AS DEFINED IN THE CERTIFICATE OF INCORPORATION). IF THE TRANSFER RESTRICTIONS ARE VIOLATED, THEN THE TRANSFER WILL BE VOID AB INITIO AND THE PURPORTED TRANSFEREE OF THE STOCK WILL BE REQUIRED TO TRANSFER EXCESS SECURITIES (AS DEFINED IN THE CERTIFICATE OF INCORPORATION) TO THE COMPANY'S AGENT. IN THE EVENT OF A TRANSFER WHICH DOES NOT INVOLVE SECURITIES OF THE COMPANY WITHIN THE MEANING OF THE GENERAL CORPORATION LAW OF THE STATE OF DELAWARE ("SECURITIES") BUT WHICH WOULD VIOLATE THE TRANSFER RESTRICTIONS, THE PURPORTED TRANSFEREE (OR THE RECORD OWNER) OF THE SECURITIES THAT VIOLATE THE TRANSFER RESTRICTIONS WILL BE REQUIRED TO TRANSFER SUFFICIENT SECURITIES PURSUANT TO THE TERMS PROVIDED FOR IN THE CERTIFICATE OF INCORPORATION TO CAUSE THE 4.899-PERCENT STOCKHOLDER TO NO LONGER BE IN VIOLATION OF THE TRANSFER RESTRICTIONS. THE CORPORATION WILL FURNISH WITHOUT CHARGE TO THE HOLDER OF RECORD OF THIS CERTIFICATE A COPY OF THE CERTIFICATE OF INCORPORATION CONTAINING THE ABOVE-REFERENCED TRANSFER RESTRICTIONS UPON WRITTEN REQUEST TO THE CORPORATION AT ITS PRINCIPAL PLACE OF BUSINESS."

The Board of Directors may also require that any certificates issued by the Corporation evidencing ownership of shares of Stock that are subject to conditions imposed by the Board of Directors under Section 3 of this ARTICLE X also bear a conspicuous legend referencing the applicable restrictions.

SECTION 12. AUTHORITY OF BOARD OF DIRECTORS.

(a) The Board of Directors shall have the power to determine all matters necessary for assessing compliance with this ARTICLE X, including, without limitation, (1) the identification of 4.899-percent Stockholders, (2) whether a Transfer is a 4.899-percent Transaction or a Prohibited Transfer, (3) the Percentage Stock Ownership in the Corporation of any 4.899-percent Stockholder, (4) whether an instrument constitutes a Corporation Security, (5) the amount (or fair market value) due to a Purported Transferee pursuant to Section 6 of this ARTICLE X, and (6) any other matters which the Board of Directors determines to be relevant; and the good faith determination of the Board of Directors on such matters shall be conclusive and binding for all the purposes of this ARTICLE X. In addition, the Board of Directors may, to the extent permitted by law, from time to time establish, modify, amend or rescind by-laws, regulations and procedures of the Corporation not inconsistent with the provisions of this ARTICLE X for purposes of determining whether any Transfer of Corporation Securities would jeopardize or endanger the Corporation's ability to preserve and use the Tax Benefits and for the orderly application, administration and implementation of this ARTICLE X.

(b) Nothing contained in this ARTICLE X shall limit the authority of the Board of Directors to take such other action to the extent permitted by law as it deems necessary or advisable to protect the Corporation and its stockholders in preserving the Tax Benefits. Without limiting the generality of the foregoing, in the event of a change in law making one or more of the following actions necessary or desirable, the Board of Directors may, by adopting a written resolution, (1) accelerate the Expiration Date, (2) modify the ownership interest percentage in the Corporation or the Persons or groups covered by this ARTICLE X, (3) modify the definitions of any terms set forth in this ARTICLE X or (4) modify the terms of this ARTICLE X as appropriate, in each case, in order to prevent an ownership change for purposes of Section 382 of the Code as a result of any changes in applicable Treasury Regulations or otherwise; provided, however, that the Board of Directors shall not cause there to be such acceleration or modification unless it determines, by adopting a written resolution, that such action is reasonably necessary or advisable to preserve the Tax Benefits or that the continuation of these restrictions is no longer reasonably necessary for the preservation of the Tax Benefits. Stockholders of the Corporation shall be notified of such determination through a filing with the Securities and Exchange Commission or such other method of notice as the Secretary of the Corporation shall deem appropriate.

(c) In the case of an ambiguity in the application of any of the provisions of this ARTICLE X, including any definition used herein, the Board of Directors shall have the power to determine the application of such provisions with respect to any situation based on its reasonable belief, understanding or knowledge of the circumstances. In the event this ARTICLE X requires an action by the Board of Directors but fails to provide specific guidance with respect to such action, the Board of Directors shall have the power to determine the action to be taken so long as such action is not contrary to the provisions of this ARTICLE X. All such actions, calculations, interpretations and determinations which are done or made by the Board of Directors in good faith shall be conclusive and binding on the Corporation, the Agent, and all other parties for all other purposes of this ARTICLE X. The Board of Directors may delegate all or any portion of its duties and powers under this ARTICLE X to a committee of the Board of Directors as it deems necessary or advisable and, to the fullest extent permitted by law, may exercise the authority granted by this ARTICLE X through duly authorized officers or agents of the Corporation. Nothing in this ARTICLE X shall be construed to limit or restrict the Board of Directors in its exercise of its fiduciary duties under applicable law.

SECTION 13. RELIANCE. To the fullest extent permitted by law, the Corporation and the members of the Board of Directors shall be fully protected in relying in good faith upon the information, opinions, reports or statements of the chief executive officer, the chief financial officer, the chief accounting officer or the corporate controller of the Corporation and the Corporation's legal counsel, independent auditors, transfer agent, investment bankers or other employees and agents in making the determinations and findings contemplated by this ARTICLE X. The members of the Board of Directors shall not be responsible for any good faith errors made in connection therewith. For purposes of determining the existence and identity of, and the amount of any Corporation Securities owned by, any stockholder, the Corporation is entitled to rely on the existence and absence of filings of Schedule 13D or 13G under the Securities and Exchange Act of 1934, as amended (or similar filings), as of any date, subject to its actual knowledge of the ownership of Corporation Securities.

SECTION 14. BENEFITS OF THIS ARTICLE X. Nothing in this ARTICLE X shall be construed to give to any Person other than the Corporation or the Agent any legal or equitable right, remedy or claim under this ARTICLE X. This ARTICLE X shall be for the sole and exclusive benefit of the Corporation and the Agent.

SECTION 15. SEVERABILITY. The purpose of this ARTICLE X is to facilitate the Corporation's ability to maintain or preserve its Tax Benefits. If any provision of this ARTICLE X or the application of any such provision to any Person or under any circumstance shall be held invalid, illegal or unenforceable in any respect by a court of competent jurisdiction, such invalidity, illegality or unenforceability shall not affect any other provision of this ARTICLE X.

SECTION 16. WAIVER. With regard to any power, remedy or right provided herein or otherwise available to the Corporation or the Agent under this ARTICLE X, (i) no waiver will be effective unless expressly contained in a writing signed by the waiving party and (ii) no alteration, modification or impairment will be implied by reason of any previous waiver, extension of time, delay or omission in exercise or other indulgence.

EXHIBIT 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Marc Booth, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Acacia Research Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a). Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b). Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c). Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d). Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a). All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b). Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2019

/s/ Marc Booth
Marc W. Booth
Chief Intellectual Property Officer

EXHIBIT 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Li Yu, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Acacia Research Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a). Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b). Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c). Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d). Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a). All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b). Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2019

/s/ Li Yu
Li Yu
Corporate Controller

EXHIBIT 32.1

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

In connection with the Quarterly Report of Acacia Research Corporation (the “Company”) on Form 10-Q for the quarterly period ended June 30, 2019, as filed with the Securities and Exchange Commission on August 9, 2019 (the “Report”), I, Marc Booth, Chief Intellectual Property Officer of the Company, hereby certify, pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 780(d)); and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 9, 2019

By: /s/ Marc Booth
Marc W. Booth
Chief Intellectual Property Officer

This certification accompanies the Report pursuant to Rule 13a-14(b) or Rule 15d-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section. This certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that the Company specifically incorporates it by reference.

EXHIBIT 32.2

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

In connection with the Quarterly Report of Acacia Research Corporation (the "Company") on Form 10-Q for the quarterly period ended June 30, 2019, as filed with the Securities and Exchange Commission on August 9, 2019 (the "Report"), I, Li Yu, Corporate Controller of the Company, hereby certify, pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 780(d)); and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 9, 2019

By: /s/ Li Yu
Li Yu
Corporate Controller

This certification accompanies the Report pursuant to Rule 13a-14(b) or Rule 15d-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section. This certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that the Company specifically incorporates it by reference.