

SECURITIES & EXCHANGE COMMISSION EDGAR FILING

ACACIA RESEARCH CORP

Form: 10-Q

Date Filed: 2019-11-12

Corporate Issuer CIK: 934549

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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 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



(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 <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>
Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input checked="" type="checkbox"/>
	Emerging growth company <input type="checkbox"/>

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 November 4, 2019, 50,343,305 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
SEPTEMBER 30, 2019

INDEX

	<u>Page</u>
<u>CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS</u>	3
PART I. <u>FINANCIAL INFORMATION</u>	4
Item 1. <u>Financial Statements</u>	4
<u>Unaudited Condensed Consolidated Balance Sheets as of September 30, 2019 and December 31, 2018</u>	4
<u>Unaudited Condensed Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2019 and 2018</u>	5
<u>Unaudited Condensed Consolidated Statements of Comprehensive Loss for the Three and Nine Months Ended September 30, 2019 and 2018</u>	6
<u>Unaudited Condensed Consolidated Statements of Stockholders' Equity for the Three and Nine Months Ended September 30, 2019 and 2018</u>	7
<u>Unaudited Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2019 and 2018</u>	9
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	10
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	25
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	36
Item 4. <u>Controls and Procedures</u>	37
Part II. <u>OTHER INFORMATION</u>	38
Item 1. <u>Legal Proceedings</u>	38
Item 1A. <u>Risk Factors</u>	38
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	38
Item 3. <u>Defaults Upon Senior Securities</u>	38
Item 4. <u>Mine Safety Disclosures</u>	38
Item 5. <u>Other Information</u>	39
Item 6. <u>Exhibits</u>	39

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q for the three months ended September 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, Item 1A 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)

	September 30, 2019	December 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 66,861	\$ 128,809
Trading securities - debt	86,390	33,642
Trading securities - equity	16,080	3,012
Accounts receivable	1,799	32,884
Prepaid expenses and other current assets	2,329	3,125
Total current assets	<u>173,459</u>	<u>201,472</u>
Investment at fair value (Note 5)	2,674	7,459
Other investments (Note 5)	—	8,195
Patents, net of accumulated amortization	8,671	6,587
Other non-current assets	2,126	236
Total assets	<u>\$ 186,930</u>	<u>\$ 223,949</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 8,268	\$ 8,347
Royalties and contingent legal fees payable	2,274	22,688
Other current liabilities	29	—
Total current liabilities	<u>10,571</u>	<u>31,035</u>
Other liabilities	2,050	1,674
Total liabilities	<u>12,621</u>	<u>32,709</u>
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; 50,343,305 and 49,639,319 shares issued and outstanding as of September 30, 2019 and December 31, 2018, respectively	50	50
Treasury stock, at cost, 2,919,828 shares as of September 30, 2019 and December 31, 2018	(39,272)	(39,272)
Additional paid-in capital	651,988	651,156
Accumulated deficit	(440,290)	(422,541)
Total Acacia Research Corporation stockholders' equity	<u>172,476</u>	<u>189,393</u>
Noncontrolling interests	<u>1,833</u>	<u>1,847</u>
Total stockholders' equity	<u>174,309</u>	<u>191,240</u>
Total liabilities and stockholders' equity	<u>\$ 186,930</u>	<u>\$ 223,949</u>

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		Nine Months Ended	
	September 30,		September 30,	
	2019	2018	2019	2018
Revenues	\$ 1,711	\$ 13,725	\$ 10,558	\$ 82,303
Portfolio operations:				
Inventor royalties	776	1,181	4,752	24,166
Contingent legal fees	35	2,949	587	19,745
Patent acquisition expenses	-	-	-	4,000
Litigation and licensing expenses - patents	987	1,549	6,643	7,177
Amortization of patents	863	4,952	2,337	15,560
Other portfolio expenses	(475)	2,202	175	2,202
Total portfolio operations	2,186	12,833	14,494	72,850
Net portfolio income (loss)	(475)	892	(3,936)	9,453
General and administrative expenses ⁽¹⁾	4,670	5,855	12,175	16,072
Impairment of patent-related intangible assets	-	-	-	28,210
Operating loss	(5,145)	(4,963)	(16,111)	(34,829)
Other income (expense):				
Change in fair value of investment, net (Note 5)	(4,266)	(24,211)	9,622	(53,961)
Loss on sale of investment (Note 5)	(915)	(3,705)	(8,147)	(3,705)
Impairment of other investment	-	-	(8,195)	(1,000)
Gain on disposal of other investment	2,000	-	2,000	-
Interest income and other	718	321	3,391	796
Total other expense	(2,463)	(27,595)	(1,329)	(57,870)
Loss before provision for income taxes	(7,608)	(32,558)	(17,440)	(92,699)
Provision for income taxes	-	(306)	(323)	(782)
Net loss including noncontrolling interests in subsidiaries	(7,608)	(32,864)	(17,763)	(93,481)
Net (income) loss attributable to noncontrolling interests in subsidiaries	-	(331)	14	(179)
Net loss attributable to Acacia Research Corporation	\$ (7,608)	\$ (33,195)	\$ (17,749)	\$ (93,660)
Net loss attributable to common stockholders - basic and diluted	\$ (7,608)	\$ (33,195)	\$ (17,749)	\$ (93,660)
Basic and diluted net loss per common share	\$ (0.15)	\$ (0.67)	\$ (0.36)	\$ (1.87)
Weighted average number of shares outstanding - basic and diluted	49,828,361	49,557,748	49,727,385	50,080,234

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2019	2018	2019	2018
General and administrative expenses	\$ 4,370	\$ 5,865	\$ 11,422	\$ 15,900
Non-cash stock compensation expense - G&A	300	566	753	1,791
Non-cash stock compensation expense - Profits Interests	-	(576)	-	(1,619)
Total general and administrative expenses	\$ 4,670	\$ 5,855	\$ 12,175	\$ 16,072

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		Nine Months Ended	
	September 30,		September 30,	
	2019	2018	2019	2018
Net loss including noncontrolling interests	\$ (7,608)	\$ (32,864)	\$ (17,763)	\$ (93,481)
Other comprehensive income (loss):				
Unrealized gain on short-term investments, net of tax of \$0	-	85	-	75
Unrealized loss on foreign currency translation, net of tax of \$0	-	(5)	-	(109)
Total other comprehensive loss	(7,608)	(32,784)	(17,763)	(93,515)
Comprehensive (income) loss attributable to noncontrolling interests	-	(331)	14	(179)
Comprehensive loss attributable to Acacia Research Corporation	\$ (7,608)	\$ (33,115)	\$ (17,749)	\$ (93,694)

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 September 30, 2019

	Common Stock		Treasury Stock	Additional Paid-in Capital	Accumulated Comprehensive Income (Loss)	Accumulated Deficit	Noncontrolling Interests in Operating Subsidiaries	Total Stockholders' Equity
	Shares	Amount						
Balance at June 30, 2019	50,132,871	\$ 50	\$ (39,272)	\$ 651,688	\$ –	\$ (432,682)	\$ 1,833	\$ 181,617
Net loss attributable to Acacia Research Corporation	–	–	–	–	–	(7,608)	–	(7,608)
Compensation expense for share-based awards, net of forfeitures	210,434	–	–	300	–	–	–	300
Balance at September 30, 2019	50,343,305	\$ 50	\$ (39,272)	\$ 651,988	\$ –	\$ (440,290)	\$ 1,833	\$ 174,309

Three Months Ended September 30, 2018

	Common Stock		Treasury Stock	Additional Paid-in Capital	Accumulated Comprehensive Income (Loss)	Accumulated Deficit	Noncontrolling Interests in Operating Subsidiaries	Total Stockholders' Equity
	Shares	Amount						
Balance at June 30, 2018	49,495,064	\$ 49	\$ (39,272)	\$ 650,265	\$ (202)	\$ (377,977)	\$ 1,513	\$ 234,376
Net loss attributable to Acacia Research Corporation	–	–	–	–	–	(33,195)	–	(33,195)
Stock options exercised	66,115	–	–	206	–	–	–	206
Compensation expense for share-based awards, net of forfeitures	135,896	1	–	565	–	–	–	566
Repurchase of restricted common stock	(57,756)	–	–	(222)	–	–	–	(222)
Net income attributable to noncontrolling interests in subsidiaries	–	–	–	–	–	–	331	331
Unrealized loss on foreign currency translation	–	–	–	–	(5)	–	–	(5)
Unrealized gain on short-term investments	–	–	–	–	85	–	–	85
Balance at September 30, 2018	49,639,319	\$ 50	\$ (39,272)	\$ 650,814	\$ (122)	\$ (411,172)	\$ 1,844	\$ 202,142

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

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

Nine Months Ended September 30, 2019

	Common Stock		Treasury Stock	Additional Paid-in Capital	Accumulated Comprehensive Income (Loss)	Accumulated Deficit	Noncontrolling Interests in Operating Subsidiaries	Total Stockholders' Equity
	Shares	Amount						
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	-	-	-	-	-	(17,749)	-	(17,749)
Stock options exercised	25,136	-	-	79	-	-	-	79
Compensation expense for share-based awards, net of forfeitures	678,850	-	-	753	-	-	-	753
Net loss attributable to noncontrolling interests in subsidiaries	-	-	-	-	-	-	(14)	(14)
Balance at September 30, 2019	50,343,305	\$ 50	\$ (39,272)	\$ 651,988	\$ -	\$ (440,290)	\$ 1,833	\$ 174,309

Nine Months Ended September 30, 2018

	Common Stock		Treasury Stock	Additional Paid-in Capital	Accumulated Comprehensive Income (Loss)	Accumulated Deficit	Noncontrolling Interests in Operating Subsidiaries	Total Stockholders' Equity
	Shares	Amount						
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	-	-	-	-	-	(93,660)	-	(93,660)
Cumulative effect of new accounting principle	-	-	-	-	-	2,506	307	2,813
Stock options exercised	82,615	-	-	257	-	-	-	257
Compensation expense for share-based awards, net of forfeitures	166,998	1	-	1,790	-	-	-	1,791
Repurchase of restricted common stock	(59,800)	-	-	(229)	-	-	-	(229)
Repurchase of common stock	(1,190,420)	(2)	(4,632)	-	-	-	-	(4,634)
Net income attributable to noncontrolling interests in subsidiaries	-	-	-	-	-	-	179	179
Unrealized loss on foreign currency translation	-	-	-	-	(109)	-	-	(109)
Unrealized gain on short-term investments	-	-	-	-	75	-	-	75
Balance at September 30, 2018	49,639,319	\$ 50	\$ (39,272)	\$ 650,814	\$ (122)	\$ (411,172)	\$ 1,844	\$ 202,142

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

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

	Nine Months Ended September 30,	
	2019	2018
Cash flows from operating activities:		
Net loss including noncontrolling interests in subsidiaries	\$ (17,763)	\$ (93,481)
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)	(9,622)	53,961
Impairment of other investment	8,195	1,000
Loss on sale of investment (Note 5)	8,147	3,705
Gain on disposal of other investment (Note 5)	(2,000)	-
Depreciation and amortization	2,344	15,582
Non-cash stock compensation	753	172
Change in value of trading securities	(914)	-
Purchases of trading securities	(103,718)	-
Maturities and sales of trading securities	38,816	-
Impairment of patent-related intangible assets	-	28,210
Other	-	(506)
Changes in assets and liabilities:		
Accounts receivable	31,085	(5,877)
Prepaid expenses and other assets	(983)	(183)
Accounts payable and accrued expenses	326	1,052
Royalties and contingent legal fees payable	(20,414)	3,864
Net cash provided by (used in) operating activities	<u>(65,748)</u>	<u>7,499</u>
Cash flows from investing activities:		
Patent acquisition costs	(4,420)	-
Sale of investment at fair value (Note 5)	6,260	10,440
(Purchase) Sale of other investments (Note 5)	2,000	(7,000)
Purchases of available-for-sale investments	-	(65,883)
Maturities and sales of available-for-sale investments	-	32,508
Purchases of property and equipment	(119)	-
Net cash provided by (used in) investing activities	<u>3,721</u>	<u>(29,935)</u>
Cash flows from financing activities:		
Repurchase of common stock	-	(4,634)
Repurchase of restricted common stock	-	(229)
Proceeds from exercise of stock options	79	257
Net cash provided by (used in) financing activities	<u>79</u>	<u>(4,606)</u>
Decrease in cash and cash equivalents	(61,948)	(27,042)
Cash and cash equivalents, beginning	<u>128,809</u>	<u>136,604</u>
Cash and cash equivalents, ending	<u>\$ 66,861</u>	<u>\$ 109,562</u>

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

ACACIA RESEARCH CORPORATION
NOTES TO UNAUDITED 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 nine months ended September 30, 2019, Acacia obtained control of five 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 September 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 nine months ended September 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		Nine Months Ended	
	September 30,		September 30,	
	2019	2018	2019	2018
	(In thousands)			
Paid-up Revenue Agreements	\$ 1,203	\$ 7,250	\$ 6,067	\$ 70,496
Recurring Revenue Agreements	508	3,005	4,491	8,337
Other Settlements	—	3,470	—	3,470
	<u>\$ 1,711</u>	<u>\$ 13,725</u>	<u>\$ 10,558</u>	<u>\$ 82,303</u>

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 nine months ended September 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

Three licensees individually accounted for 52%, 21% and 12% of revenues recognized during the three months ended September 30, 2019, and three licensees individually accounted for 46%, 23% and 14% of revenues recognized during the nine months ended September 30, 2019. Three licensees individually accounted for 44%, 25% and 17% of revenues recognized during the three months ended September 30, 2018, and one licensee accounted for 73% of revenues recognized during the nine months ended September 30, 2018.

For the three and nine months ended September 30, 2019, 75% and 38%, 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 nine months ended September 30, 2018, 61% and 15%, respectively, of revenues were attributable to licensees domiciled in foreign jurisdictions.

Four licensees individually represented approximately 49%, 20%, 11% and 11% of accounts receivable at September 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. Refer to Note 4 for additional information on our patents.

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 statements 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 statements 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:

Security Type	Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
	(In thousands)			
September 30, 2019:				
Trading securities - debt	\$ 86,157	\$ 240	\$ (7)	\$ 86,390
Trading securities - equity	16,143	297	(360)	16,080
	<u>\$ 102,300</u>	<u>\$ 537</u>	<u>\$ (367)</u>	<u>\$ 102,470</u>
December 31, 2018:				
Trading securities - debt	\$ 33,643	\$ 18	\$ (19)	\$ 33,642
Trading securities - equity	3,389	27	(404)	3,012
	<u>\$ 37,032</u>	<u>\$ 45</u>	<u>\$ (423)</u>	<u>\$ 36,654</u>

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:

	<u>Level 1</u>	<u>Level 2</u> (In thousands)	<u>Level 3</u>
Assets as of September 30, 2019:			
Trading securities - debt	\$ —	\$ 86,390	\$ —
Trading securities - equity	16,080	—	—
Investment at fair value - warrants (Note 5)	—	1,242	—
Investment at fair value - common stock (Note 5)	1,432	—	—
Total recurring fair value measurements as of September 30, 2019	<u>\$ 17,512</u>	<u>\$ 87,632</u>	<u>\$ —</u>
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	<u>\$ 8,407</u>	<u>\$ 35,706</u>	<u>\$ —</u>

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 (2%) for the three and nine months ended September 30, 2019, respectively and (1%) and (1%) for the three and nine months ended September 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 September 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 loss per share:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Weighted-average shares used in computing net loss per share attributable to common stockholders - basic and diluted	<u>49,828,361</u>	<u>49,557,748</u>	<u>49,727,385</u>	<u>50,080,234</u>
Basic and diluted net loss per common share	<u>\$ (0.15)</u>	<u>\$ (0.67)</u>	<u>\$ (0.36)</u>	<u>\$ (1.87)</u>
Anti-dilutive equity-based incentive awards excluded from the computation of diluted loss per share	<u>442,864</u>	<u>3,518,070</u>	<u>442,864</u>	<u>3,549,770</u>
Maximum price of awards excluded from the computation of diluted loss per share	<u>\$ 5.75</u>	<u>\$ 6.75</u>	<u>\$ 5.75</u>	<u>\$ 6.75</u>

4. PATENTS

Acacia's only identifiable intangible assets at September 30, 2019 and December 31, 2018 are patents and patent rights. Patent-related accumulated amortization totaled \$321,917,000 and \$319,580,000 as of September 30, 2019 and December 31, 2018, respectively. Acacia's patents have remaining estimated economic useful lives ranging from six to fifty seven 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 September 30, 2019:

For the years ending December 31,	
(In thousands)	
Remainder of 2019	\$ 857
2020	2,555
2021	1,695
2022	1,695
2023	1,620
Thereafter	249
	<u>\$ 8,671</u>

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 nine months ended September 30, 2019, Acacia sold 150,555 and 1,018,524 shares of Veritone common stock at prices ranging from \$7.53 to \$8.40 and from \$4.77 to \$9.21 for the three and nine months ended September 30, 2019, respectively, and recorded a realized loss of \$0.9 million and \$8.1 million for the three and nine months ended September 30, 2019, respectively.

At September 30, 2019, the fair value of the 400,997 shares of Veritone common stock owned by Acacia totaled \$1,432,000, and the fair value of the 1,120,432 common stock purchase warrants held by Acacia totaled \$1,242,000.

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 nine months ended September 30, 2019 and 2018, the accompanying consolidated statements of operations reflected the following:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2019	2018	2019	2018
	(In thousands)			
Change in fair value of investment, warrants	\$ (3,216)	\$ (5,067)	\$ (822)	\$ (9,848)
Change in fair value of investment, common stock	(1,050)	(19,144)	10,444	(44,113)
Loss on sale of investment, common stock	(915)	(3,705)	(8,147)	(3,705)
Net realized and unrealized gain (loss) on investment at fair value	<u>\$ (5,181)</u>	<u>\$ (27,916)</u>	<u>\$ 1,475</u>	<u>\$ (57,666)</u>

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.

As of June 30, 2019, Acacia recorded an impairment of \$8.2 million for its investment in Miso Robotics. In September 2019, Acacia received a cash payment of \$2.0 million upon the sale of its entire investment, and therefore relinquished its ownership interest in Miso Robotics.

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 have leased approximately 8,293 square feet of office space for our corporate headquarters in Irvine, California. The New Lease commenced on August 1, 2019. The term of the New Lease is 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. During the year ended December 31, 2018, the Company recorded a one-time charge of \$629,000 for the excess of lease payments over the anticipated sublease income through expiration of the lease.

Operating lease costs, net of sublease income, were \$96,000 and \$258,000 for the three months ended September 30, 2019 and 2018, respectively. Operating lease costs, net of sublease income, were \$301,000 and \$761,000 for the nine months ended September 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	\$	309
2020		435
2021		334
2022		349
2023		364
Thereafter		218
	\$	2,009

Effective January 1, 2019, the Company has adopted ASC 842, electing the practical expedient approaches and has recognized approximately \$1.8 million of right-of-use assets and \$2.0 million in lease-related liabilities as of September 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 October 3, 2019, the tribunal extended its deadline to render a final award to November 29, 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.

During the three and nine months ended September 30, 2019, there is no settlement and contingency accruals included in operating expenses. During the three and nine months ended September 30, 2018, operating expenses included expenses for settlement and contingency accruals totaling \$2.2 million, net of prior accruals.

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"). 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		

On August 5, 2019, Acacia's Board of Directors approved a new 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.

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.

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.

The Company also has a provision in its Amended and Restated Certificate of Incorporation, as amended (the "Charter Provision") which generally prohibits transfers of its common stock that could result in an ownership change. Like the Plan, the purpose of the Charter Provision 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 Charter Provision was approved by the Company's stockholders on July 15, 2019.

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 \$1.8 million of right-of-use assets and an increase of \$2.0 million in lease-related liabilities as of September 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 nine months ended September 30, 2019.

9. FAIR VALUE DISCLOSURES

Acacia holds the following types of financial instruments at September 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

None.

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, Item 1 of this Quarterly Report on Form 10-Q for the three months ended September 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, Item 1A 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 approximately \$776 million to our patent partners.

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.

Executive Summary

Overview

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.

- *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.

Investments in Patent Portfolios

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 Portfolio Intake.

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 three months ended September 30, 2019, two new patent portfolios were acquired. During the nine months ended September 30, 2019, we acquired five new patent portfolios covering (i) enterprise networking equipment and residential gateways technology, (ii) customization of ad insertion for Internet radio streaming technology, (iii) wireless communications and cloud computing, (iv) optical communications, and (v) commercial food processing. The patents and patent rights acquired during the nine months ended 2019 have estimated economic useful lives of approximately five years. In fiscal year 2018 we did not acquire any patent portfolios, compared to one portfolio acquired during fiscal year 2017.

Operating Activities.

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 nine months ended September 30, 2019 and 2018 included fees from the following technology licensing and enforcement programs:

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

⁽¹⁾ 2019 period

⁽²⁾ 2018 period

Summary of Consolidated Results of Operations - Overview

For the Three and Nine Months Ended September 30, 2019 and 2018

	Three Months Ended September 30,		\$ Change	% Change	Nine Months Ended September 30,		\$ Change	% Change
	2019	2018			2019	2018		
Revenues	\$ 1,711	\$ 13,725	\$ (12,014)	(88%)	\$ 10,558	\$ 82,303	\$ (71,745)	(87%)
Operating costs and expenses	6,856	18,688	(11,832)	(63%)	26,669	117,132	(90,463)	(77%)
Operating loss	(5,145)	(4,963)	(182)	4%	(16,111)	(34,829)	18,718	(54%)
Other expense, net	(2,463)	(27,595)	25,132	(91%)	(1,329)	(57,870)	56,541	(98%)
Loss before provision for income taxes	(7,608)	(32,558)	24,950	(77%)	(17,440)	(92,699)	75,259	(81%)
Provision for income taxes	–	(306)	306	(100%)	(323)	(782)	459	(59%)
Net loss attributable to Acacia Research Corporation	(7,608)	(33,195)	25,587	(77%)	(17,749)	(93,660)	75,911	(81%)

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

Revenues decreased \$12.0 million to \$1.7 million for the three months ended September 30, 2019, as compared to \$13.7 million in the comparable prior year quarter, primarily due to decrease in revenues from the new agreements executed during the quarter. Refer to "Investments in Patent Portfolios" above 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 \$7.6 million for the three months ended September 30, 2019, as compared to \$32.6 million for the three months ended September 30, 2018. The net change was comprised of the change in revenues described above and other changes in operating expenses and other income and expenses as follows:

- Inventor royalties and contingent legal fees, on a combined basis, decreased \$3.3 million, or 80%, from \$4.1 million to \$0.8 million, primarily due to decrease in revenues as describe above.
- Litigation and licensing expenses-patents decreased \$0.6 million, or 36%, from \$1.6 million to \$1.0 million, due primarily to a net decrease in litigation support and third-party technical consulting expenses associated with ongoing litigation.
- Amortization expense decreased \$4.1 million, or 83%, from \$5.0 million to \$0.9 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, and accelerated amortization recorded in the third quarter of 2018.
- Other portfolio expenses decreased \$2.7 million, from \$2.2 million to a credit of \$0.5 million, mainly due to expenses for settlement and contingency accruals of \$2.2 million recorded in the third quarter of 2018.
- General and administrative expenses, excluding non-cash stock compensation, decreased \$1.5 million, or 25%, from \$5.9 million to \$4.4 million, primarily due to higher corporate, general and administrative costs related to the 2018 proxy contest and employee related severance costs in the prior year.
- Net non-cash stock compensation expense increased \$310,000, from a credit of \$10,000 to a charge of \$300,000, mainly due to a \$0.6 million credit for the decrease in fair value of the profits interest units, or the Units, related to Veritone, Inc., or Veritone, in the third quarter of 2018.
- Unrealized loss decreased from \$22.4 million for the three months ended September 30, 2018 to \$4.3 million for the three months ended September 30, 2019, and realized loss decreased from \$5.5 million for the three months ended September 30, 2018 to \$0.9 million for the three months ended September 30, 2019, on our equity investment in Veritone. Refer to Note 5 to the consolidated financial statements elsewhere herein for additional information regarding our investment in Veritone.
- Gain on disposal of other investment increased from \$0 to \$2.0 million due to the sale of our other investment in Miso Robotics, Inc., or Miso Robotics, in the third quarter of 2019. Refer to Note 5 to the consolidated financial statements elsewhere herein for additional information regarding our investment in Miso Robotics.
- Interest income and other increased \$0.4 million, from \$0.3 million to \$0.7 million, mainly due to our investment in trading securities. Refer to Note 2 to the consolidated financial statements elsewhere herein for additional information regarding our investment in trading securities.

Results of Operations - Nine months ended September 30, 2019 compared with the nine months ended September 30, 2018

Revenues decreased \$71.7 million to \$10.6 million for the nine months ended September 30, 2019, as compared to \$82.3 million in the comparable prior year quarter, primarily due to decrease in the number of new agreements executed during the 2019 period. Refer to “*Investments in Patent Portfolios*” above 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 \$17.4 million for the nine months ended September 30, 2019, as compared to \$92.7 million for the nine months ended September 30, 2018. The net change was comprised of the change in revenues described above and other changes in operating expenses and other income and expenses as follows:

- Inventor royalties and contingent legal fees, on a combined basis, decreased \$38.6 million, or 88%, from \$43.9 million to \$5.3 million, primarily due to decrease in revenues as describe above.
- Litigation and licensing expenses-patents decreased \$0.5 million, or 7%, from \$7.2 million to \$6.6 million, due primarily to a net decrease in litigation support and third-party technical consulting expenses associated with ongoing litigation.
- Amortization expense decreased \$13.2 million, or 85%, from \$15.6 million to \$2.3 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, and accelerated amortization recorded in the third quarter of 2018.
- Other portfolio expenses decreased \$2.0 million, from \$2.2 million to \$0.2 million, mainly due to expenses for settlement and contingency accruals of \$2.2 million recorded in the third quarter of 2018.
- General and administrative expenses, excluding non-cash stock compensation, decreased \$4.5 million, or 28%, from \$15.9 million to \$11.4 million, primarily due to higher corporate, general and administrative costs related to the 2018 proxy contest and employee related severance costs in the prior year.
- Net non-cash stock compensation expense increased \$0.6 million, from \$0.2 million to \$0.8 million, mainly due to a \$1.6 million credit for the decrease in fair value of the Units in the nine months ended September 30, 2018.
- An unrealized gain of \$9.6 million for the nine months ended September 30, 2019 as compared to an unrealized loss of \$52.1 million for the nine months ended September 30, 2018, and a realized loss of \$8.1 million for the nine months ended September 30, 2019 as compared to a realized loss of \$5.5 million for the nine months ended September 30, 2018, on our equity investment in Veritone. Refer to Note 5 to the consolidated financial statements elsewhere herein for additional information regarding our investment in Veritone.
- Gain on disposal of other investment increased from \$0 to \$2.0 million due to the sale of our other investment in Miso Robotics in the third quarter of 2019. Refer to Note 5 to the consolidated financial statements elsewhere herein for additional information regarding our investment in Miso Robotics.
- Interest income and other increased \$2.6 million, from \$0.8 million to \$3.4 million, mainly due to our investment in trading securities. Refer to Note 2 to the consolidated financial statements elsewhere herein for additional information regarding our investment in trading securities.

Revenues and Pretax Net Loss

Revenue for the periods presented included the following:

	Three Months Ended		Change		Nine Months Ended		Change	
	September 30,				September 30,			
	2019	2018	\$	%	2019	2018	\$	%
Revenues (in thousands, except percentage change values)	\$ 1,711	\$ 13,725	\$ (12,014)	(88%)	\$ 10,558	\$ 82,303	\$ (71,745)	(87%)
New agreements executed	3	3	–	0%	4	9	(5)	(56%)
Licensing and enforcement programs generating revenues	4	6	(2)	(33%)	4	8	(4)	(50%)
New patent portfolios	2	–	2	–	5	–	5	–

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 Note 2 to the consolidated financial statements elsewhere herein for additional information regarding our revenue concentrations for the periods presented herein.

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		Change		Nine Months Ended		Change	
	September 30,				September 30,			
	2019	2018	\$	%	2019	2018	\$	%
	(In thousands, except percentage change values)							
Loss before provision for income taxes	\$ (7,608)	\$ (32,558)	\$ 24,950	(77%)	\$ (17,440)	\$ (92,699)	\$ 75,259	(81%)

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 nine months ended September 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		Change		Nine Months Ended		Change	
	September 30,				September 30,			
	2019	2018	\$	%	2019	2018	\$	%
	(In thousands, except percentage change values)							
Inventor royalties	\$ 776	\$ 1,181	\$ (405)	(34%)	\$ 4,752	\$ 24,166	\$ (19,414)	(80%)
Contingent legal fees	35	2,949	(2,914)	(99%)	587	19,745	(19,158)	(97%)
Patent acquisition expenses	–	–	–	–	–	4,000	(4,000)	(100%)

Litigation and Licensing Expenses - Patents

For the three and nine months ended September 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.

Amortization of Patents

For the three months ended September 30, 2019, amortization expense decreased \$4.1 million, or 83%, as compared to the three months ended September 30, 2018. For the nine months ended September 30, 2019, amortization expense decreased \$13.2 million, or 85%, as compared to the nine months ended September 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, and accelerated amortization recorded in the third quarter of 2018.

Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
2019	2018	\$	%	2019	2018	\$	%

(In thousands, except percentage change values)

Litigation and licensing expenses - patents	\$ 987	\$ 1,549	\$ (562)	(36%)	\$ 6,643	\$ 7,177	\$ (534)	(7%)
Amortization of patents	863	4,952	(4,089)	(83%)	2,337	15,560	(13,223)	(85%)
Impairment of patent-related intangible assets	-	-	-	-	-	28,210	(28,210)	(100%)

Operating Expenses

General and Administrative Expenses

Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
2019	2018	\$	%	2019	2018	\$	%

(In thousands, except percentage change values)

General and administrative expenses	\$ 4,370	\$ 5,865	\$ (1,495)	(25%)	\$ 11,422	\$ 15,900	\$ (4,478)	(28%)
Non-cash stock compensation expense								
- G&A	300	566	(266)	(47%)	753	1,791	(1,038)	(58%)
Non-cash stock compensation expense								
- Profits Interests	-	(576)	576	(100%)	-	(1,619)	1,619	(100%)
Total general and administrative expenses	\$ 4,670	\$ 5,855	\$ (1,185)	(20%)	\$ 12,175	\$ 16,072	\$ (3,897)	(24%)

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

	Three Months Ended September 30, 2019 vs. 2018	Nine Months Ended September 30, 2019 vs. 2018
	<i>(In thousands)</i>	
Personnel costs and board fees	\$ 1,164	\$ 1,800
Variable performance-based compensation costs	520	(318)
Corporate, general and administrative costs	(992)	(4,057)
Non-cash stock compensation expense	310	581
Non-recurring employee severance costs	(2,187)	(1,903)
Total change in general and administrative expenses	<u>\$ (1,185)</u>	<u>\$ (3,897)</u>

The increases in personnel costs and board fees were primarily due to higher compensation expenses to employees and Board of Directors for the periods presented. The decreases in corporate, general and administrative costs were primarily due to prior year's higher costs relating to the 2018 proxy contest. The increases in non-cash stock compensation expense were primarily due to stock grants issued to employees and Board of Directors in the quarters ended June 30, 2019 and September 30, 2019. The decreases in severance costs were primarily due to prior year's higher costs relating to severance expenses.

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 statements of operations each period. Results for the three and nine months ended September 30, 2019 included an unrealized loss totaling \$4.3 million and an unrealized gain totaling \$9.6 million, respectively on our investment in Veritone. Results for the three and nine months ended September 30, 2018 included unrealized losses totaling \$22.4 million and \$52.1 million, respectively on our investment in Veritone. The three months ended September 30, 2019 included a realized loss of \$0.9 million from the sale of 150,555 shares of Veritone stock at a weighted average price of \$8.07 per share. The nine months ended September 30, 2019 included a realized loss of \$8.1 million from the sale of 1,018,524 shares of Veritone stock at a weighted average price of \$6.18 per share.

Income Taxes

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Provision for income taxes (in thousands)	\$ —	\$ (306)	\$ (323)	\$ (782)
Effective tax rate	0%	(1%)	(2%)	(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 November 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 to us 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 \$169.3 million at September 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:

	Nine Months Ended	
	September 30,	
	2019	2018
	(In thousands)	
Net cash provided by (used in):		
Operating activities	\$ (65,748)	\$ 7,499
Investing activities	3,721	(29,935)
Financing activities	79	(4,606)

Cash Flows from Operating Activities

Cash receipts from licensees for the nine months ended September 30, 2019 decreased 45% to \$42.1 million, as compared to \$76.6 million in the comparable 2018 period, mainly due to the decrease in revenue. Cash outflows from operations, excluding the impact of purchases and maturities of trading securities, for the nine months ended September 30, 2019 decreased 38% to \$42.9 million, as compared to \$69.1 million in the comparable 2018 period, primarily due to the decreases in net loss and in inventor royalties and contingent legal fees payments, 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):

	Nine Months Ended	
	September,	
	2019	2018
	(In thousands)	
Patent acquisition costs	\$ (4,420)	\$ —
Sale of investment at fair value ⁽¹⁾	6,260	10,440
(Purchase) Sale of other investments ⁽¹⁾	2,000	(7,000)
Net purchase of short-term investments	—	(33,375)
Purchases of property and equipment	(119)	—

⁽¹⁾ Refer to Note 5 for additional information

Working Capital

Working capital at September 30, 2019 decreased to \$162.9 million, compared to \$170.4 million at December 31, 2018. Consolidated accounts receivable from licensees decreased to \$1.8 million at September 30, 2019, compared to \$32.9 million at December 31, 2018. Accounts payable and accrued expenses remained at \$8.3 million for the periods presented. Consolidated royalties and contingent legal fees payable decreased to \$2.3 million at September 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 fourth quarter of 2019, subsequent to receipt by us of the related fee payments from licensees, in accordance with the underlying contractual arrangements.

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

Refer to Note 8 to the consolidated financial statements elsewhere herein for additional information regarding our recently adopted accounting pronouncements for the periods presented herein.

Off-Balance Sheet Arrangements

As of September 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 September 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 September 30, 2019 and December 31, 2018, the carrying value of our common stock and warrants in public and private companies was \$18.8 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 \$18.8 million and \$10.5 million of our assets as of September 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 September 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 \$0.3 million in the fair value of our equity and equity warrant investments in Veritone, and a decrease of approximately \$1.6 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.

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 Executive 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 Executive Officer and Corporate Controller concluded that, as of September 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 Executive 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 September 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 Executive 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., or 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, or 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 October 3, 2019, the tribunal extended its deadline to render a final award to November 29, 2019. As of the date of this report, 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

10.1*#	Employment Agreement, dated September 3, 2019, by and among Acacia Research Group LLC, Acacia Research Corporation and Clifford Press
10.2*#	Employment Agreement, dated September 3, 2019, by and among Acacia Research Group LLC, Acacia Research Corporation and Alfred Tobia
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.

* If any, indicates management contract or compensatory plan.

** 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: November 12, 2019

/s/ Clifford Press
By: **Clifford Press**
Chief Executive Officer
(Principal Executive Officer and Duly Authorized Signatory)

Date: November 12, 2019

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

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the "Agreement"), dated September 3, 2019 is entered into by and among Acacia Research Group LLC, a Texas limited liability company ("Acacia"), Acacia Research Corporation (the "Company") and Clifford Press ("You"), on the following terms and conditions.

BACKGROUND

Acacia, the Company and You desire to enter into this Agreement, subject to the terms and conditions as set forth below.

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants set forth herein, Acacia and You, intending to be legally bound, hereby agree as follows:

1. **Position and Responsibilities.** You will be employed as Chief Executive Officer of the Company and serve as a member of the Board of Directors of the Company (the "Board") with duties, responsibilities and authorities commensurate with such positions, reporting directly and exclusively to the Board. The start date at which You will begin employment at Acacia will be September 3, 2019 ("Start Date"). You agree that, at all times during your employment hereunder, You will be subject to and comply with Acacia's personnel policies including Acacia's Insider Trading Policy (attached hereto as Exhibit A), Sexual Harassment Policy and general Harassment Policy (attached hereto as Exhibits B-1 and B-2, respectively) and Employee Handbook, all as may be modified from time to time. You will devote substantially all of your working time and efforts to Acacia's business; provided that, so long as such activities do not materially interfere with Your duties to the Company, You shall be permitted to (a) serve on civic and charitable boards, (b) manage personal, financial and legal affairs and investments and (c) serve on at least one additional for profit board of directors (and any committees related thereto); provided, further, that in all events you shall be permitted to continue to engage in the activities set forth on Schedule A. The Company shall adopt, and You agree to be subject to and comply with, policies related to Your outside business activities, which policies shall also address any fees You may receive during the term of Your employment in connection with serving on boards or committees of any third party entities.

2. **Employment.** Your employment will be at-will and may be terminated by Acacia or You for any reason. This at-will arrangement cannot be changed during your employment, unless agreed to in writing by the Board.

3. **Compensation.** For all services rendered by You pursuant to this Agreement, Acacia will pay You, subject to your adherence to all of the terms of this Agreement, and You will accept as full compensation hereunder, the following:

3.1 **Salary.** Acacia will pay You an annual salary of \$475,000, which shall be reviewed by the Compensation Committee of the Board (the "Committee") at least annually for increase, but not decrease (such salary as increased from time to time (the "Salary"). The Salary will be subject to all appropriate federal and state withholding taxes and will be payable bi-weekly, in accordance with the normal payroll procedures of Acacia. In addition, within 15 days of the Start Date, Acacia will pay you \$79,166.66 in consideration for services provided by You on behalf of the Company from July 1, 2019 through the date hereof.

3.2 **Discretionary Bonus.** At the end of each calendar year, if employed at Acacia, You will be eligible for a discretionary cash bonus of between 50% and 150% of the Salary, with a target bonus of 100% of Your Salary (the "Target Bonus"), based on the achievement of operational and strategic performance goals established by the Committee in consultation with You. For calendar year 2019, (a) the performance goals established by the Committee shall be strategic, (b) the bonus paid shall be prorated based on the number of days that You were employed during the year commencing on the Start Date, and (c) the bonus shall be paid to You no later than December 31, 2019. Except as provided in the immediately preceding sentence, such discretionary annual bonus will be evaluated and paid (if applicable) no later than the end of the month following the calendar year to which such bonus relates. The discretionary annual bonus will be subject to all appropriate federal and state withholding taxes in accordance with the normal payroll procedures of Acacia.

3.3 Restricted Stock Units. As of the date hereof, You will be granted restricted stock units of the Company (Nasdaq: ACTG) having a grant date fair value of \$650,000 on the terms and conditions (including the vesting terms) set forth on Exhibit RS (the "Initial Equity Grant").

3.4 Inducement Payment. In consideration for Your agreement to accept Your position with Acacia and to relinquish various positions that You currently hold with other organizations, Acacia shall pay to you a lump sum cash payment of \$350,000, of which \$150,000 has been paid to you prior to the date hereof and of which the remaining \$200,000 shall be paid to you within 15 days of the Start Date. The payment described in the immediately preceding sentence will be subject to all appropriate federal and state withholding taxes in accordance with the normal payroll procedures of Acacia.

3.5 Benefits and Perquisites. Acacia will make benefits available to You, including, but not limited to, health, death and disability insurance, and the like, to the extent and on the terms made available to other similarly situated executives of Acacia. This provision does not alter Acacia's right to modify or eliminate any employee benefit and does not guarantee the continuation of any kind or level of benefits. Except to the extent otherwise expressly provided herein, all such benefits will cease upon the termination of your employment under this Agreement.

3.6 Termination. The employment relationship between You and Acacia created hereunder will terminate upon the occurrence of any one of the following events:

3.7 Death or Permanent Disability. Acacia may terminate this Agreement and any further obligations to You if You die or, due to physical or mental disability, You are, for a period in excess of 90 consecutive days or 120 days in any 180 day period, either (a) unable to reasonably and effectively carry out your duties with reasonable accommodations by Acacia or (b) unable to reasonably and effectively carry out your duties because any reasonable accommodation which may be required would cause Acacia undue hardship. In the event of a disagreement concerning your perceived disability, You will submit to such examinations as are deemed appropriate by three practicing physicians specializing in the area of your disability, one selected by You, one selected by Acacia, and one selected by both such physicians. The majority decision of such three physicians will be final and binding on the parties.

3.8 Termination for Cause. Your employment may be terminated at any time with or without Cause. For purposes of this Agreement, "Cause" shall mean:

(a) Your willful refusal to substantially perform your duties hereunder, or willful breach any of your material obligations under this Agreement;

(b) Your willful misconduct or gross negligence, which is likely to have the effect of demonstrably injuring the reputation, business or business relationship of Acacia;

(c) You are convicted of or plead guilty or *nolo contendere* to any criminal offense, or felony; or

(d) You embezzle or steal any of Acacia's funds or assets or commit any act of fraud with respect to any aspect of Acacia's business;

provided that Cause shall not apply to any act or omission described above unless the Board provides written notice of the act or omission and, with respect to clauses (a) or (b), the act or omission is cured within 10 days after receipt of such notice. Any act, or failure to act, based upon authority given pursuant to a resolution duly adopted by the Board or upon the instructions of the Board or reasonably based upon the advice of counsel for the Company shall be conclusively presumed to be done, or omitted to be done, by You in good faith and in the best interests of the Company and no act or failure to act on Your part shall be considered "willful," so long as you reasonably believed that such action, or failure to act, was in the best interests of the Company.

3.9 Resignation by You with or without Good Reason . You may resign at any time without Good Reason upon providing the Company with 30 days prior written notice. You may resign at any time for Good Reason. For purposes of this Agreement, "Good Reason" shall mean, without Your prior written consent:

(a) A material reduction in Your Salary or Target Bonus (provided, that so long as the Target Bonus is in the range set forth in Section 3.2, there shall be no deemed "material reduction" in such Target Bonus even if the amount of the potential Target Bonus to be earned by You in a given year is less than the amount of the potential Target Bonus to be earned by you in the prior year);

(b) A change in Your title(s) or reporting relationship or a material reduction in your duties, responsibilities or authorities;

(c) A relocation of Your principal place of business from Manhattan, NY; or

(d) A material breach of this Agreement;

Your termination of employment will not be for Good Reason unless (1) You notify the Company in writing of the existence of the condition that You believe constitutes Good Reason within 60 days of the initial existence of such condition (which notice specifically identifies such condition), (2) the Company fails to remedy such condition within 30 days after the date on which it receives such notice (the "Remedial Period"), and (3) so long as the Company acknowledges in writing the existence of Good Reason by the end of the Remedial Period, You actually terminate employment within 30 days following the expiration of the Remedial Period and before the Company remedies such condition. If the Company does not acknowledge the existence of Good Reason by the end of the Remedial Period, You shall only be required to resign for Good Reason within two years after the end of the Remedial Period, unless at any time during such two year period the Company provides written notice to You that Good Reason exists in which case You shall have 30 days from Your receipt of such notice to resign for Good Reason.

4. Compensation Upon Termination.

4.1 Termination for Any Reason. Upon termination of your employment under this Agreement for any reason, the Company or one of its affiliates shall pay You: (i) unpaid salary earned through the date of termination; (ii) for any vacation time earned but not used as of the date Your employment terminates in accordance with Company policies as then in effect; (iii) reimbursement, in accordance with the Company's and its affiliates policies and procedures, for business expenses incurred by You but not yet paid to You as of the date Your employment terminates; (iv) except in the case of a termination by the Company and its affiliates for Cause, Your annual bonus for any completed fiscal year to the extent not yet paid and earned; and (v) all other payments, benefits or fringe benefits to which You are entitled under the terms of the applicable arrangements and/or applicable law (all of the foregoing clauses (i)-(v) collectively, the "Accrued Obligations").

4.2 Other Than Cause/For Good Reason. Upon termination of your employment under this Agreement by the Company and its affiliates other than for Cause, Death or Disability or by You for Good Reason, in addition to the Accrued Obligations, subject to Your execution and non-revocation of a release in the form attached hereto as Exhibit A and Your compliance with the restrictive covenants in Sections 5 through 8 below, You will be entitled to (i) a severance payment equal to the product of (A) 1.5 and (B) Your Salary (provided that if such termination occurs within one (1) year following a Change in Control (as defined on Exhibit CIC), such amount shall be equal to the product of (A) two and (B) sum of (1) Your Salary and (2) the Target Bonus), which severance payment shall be paid in 18 monthly installments commencing on the 60th day following Your date of termination, (ii) a payment in an amount equal to the product of (A) the Target Bonus and (B) a fraction, the numerator of which is the number of days in the year in which the date of termination occurs through the date of termination (or if the termination occurs in 2019 the number of days in the year from the Start Date until the date of termination) and the denominator of which is 365 (the "Pro Rata Bonus"), which payment shall be paid in 18 monthly installments commencing on the 60th day following Your date of termination, and (iii) to the extent that You participate in Acacia's health programs, the Company shall pay You an amount in cash, on a monthly basis, equal to the employer portion of the premiums for Your health plan benefits for You and Your eligible dependents for a period of 18 months commencing on Your date of termination (the "Health Benefits"). In addition, upon a termination by the Company without Cause or a resignation by You for Good Reason, in each case if such termination occurs within one (1) year following a Change in Control, with respect to the Initial Equity Grant, You will immediately be deemed to have satisfied any time-based and performance-based vesting requirements (the "Equity Benefits").

4.3 **Death/Disability.** Upon termination of Your employment under this Agreement by reason of Your death or Disability, in addition to the Accrued Obligations, You (or Your estate or guardian, as applicable) shall be paid or provided the Pro Rata Bonus and the Health Benefits.

4.4 **Remedy.** Should Acacia terminate your employment for Cause, and it is later determined that Acacia did not have Cause for the termination, then Acacia's decision to terminate You will be deemed to have been made without Cause and Acacia will pay You the compensation as set forth in this Agreement, as your sole and exclusive remedy.

5. **Confidentiality.**

5.1 **Confidential Information.** Acacia and You recognize that You will acquire certain confidential and proprietary information relating to Acacia's business and the business of Acacia's affiliates. Such confidential and proprietary information is information that derives independent economic value, actual or potential, from not being generally known to the public or to other persons who can obtain economic value from its disclosure or use, and is the subject of efforts that are reasonable under the circumstances to maintain its secrecy ("Confidential Information"). Confidential Information may include, without limitation, the following: business plans, projections, information (including, without limitation, privileged information) relating to any litigation or other proceeding to which Acacia or any of its affiliates are parties to, planning and strategies, marketing plans, materials, pricing, programs and related data, product information, services, budgets, acquisition plans, the names or addresses of any employees, independent contractors or customers, licensing strategy, statistical data, financial information or arrangements, manuals, forms, techniques, know-how, trade secrets, software, any method or procedure of Acacia's business, whether developed by Acacia or developed, or contributed to, by You during the course of your employment, or made available to You by Acacia or any of Acacia's affiliates in the course of your employment, or any market development, research or expansion projects, business systems and procedures and other confidential business and proprietary information. Confidential Information may be contained in written materials, verbal communications, the unwritten knowledge of employees, or any other tangible medium, such as tape, computer, or other means of electronic storage of information.

5.2 **Obligation of Confidentiality.** You acknowledge and agree that (a) all of the Confidential Information constitutes special, unique and valuable assets of Acacia and trade secrets, the disclosure of which would cause irreparable harm and substantial loss to Acacia and/or its affiliates. In view of the foregoing, You agree that at no time will You, directly or indirectly, and whether during or after your employment with Acacia, use, reveal, disclose or make known any Confidential Information without specific written authorization from or written direction by Acacia. You further agree that, immediately upon termination or expiration of your employment for any reason whatsoever, or at any time upon request by Acacia, You will return to Acacia all Confidential Information. Notwithstanding the foregoing, any restriction on Your use, disclosure, or conveyance of Confidential Information shall not apply to (i) any Confidential Information that enters the public domain through no fault of Yours or any person affiliated with You; (ii) any Confidential Information that You are required to disclose pursuant to applicable law or legal process, an order of a court of competent jurisdiction or a government agency having appropriate authority, solely to the extent necessary to comply with such order; and (iii) any use or disclosure, during the course of Your service with Acacia of Confidential Information made necessary by the proper conduct of the business of Acacia and consistent with the instructions of Acacia. Nothing in any code, agreement, manual or in any other policies, procedures or agreements of Acacia or its affiliates shall prohibit or restrict You or Your counsel from providing information in connection with: (a) any disclosure of information required by law or legal process; (b) reporting possible violations of federal or state law or regulation to any governmental agency, commission or entity or self-regulatory organization (collectively "Government Agencies") (c) filing a charge or complaint with Government Agencies; (d) making disclosures that are protected under the whistleblower provisions of federal or state law or regulation (collectively the "Whistleblower Statutes"); or (e) from initiating communications directly with, responding to any inquiry from, volunteering information to, testifying or otherwise participating in or assisting in any inquiry, investigation or proceeding brought by Government Agencies in connection with (a) through (e). You are not required to advise or seek permission from Acacia or its affiliates before engaging in any activity set forth in (a) through (e). Further, Acacia and its affiliates do not in any manner limit Your right to receive an award from Government Agencies for information provided to Government Agencies or pursuant to the Whistleblower Statutes. In no event shall You be prohibited from disclosing Confidential Information to Your legal advisors or from providing information regarding Your compensation or the terms of this Agreement to any financial or tax advisors.

6. **Intellectual Property.** You agree that any and all discoveries, concepts, ideas, inventions, writings, plans, articles, devices, products, designs, treatments, structures, processes, methods, formulae, techniques and drawings, and improvements or modifications related to the foregoing that are in any way related to intellectual property owned or controlled by Acacia or its affiliates or subsidiaries, whether patentable, copyrightable or not, which are made, developed, created, contributed to, reduced to practice, or conceived by You, whether solely or jointly with others, in connection with your employment with Acacia (collectively, the "Intellectual Property") will be and remain the exclusive property of Acacia, and, to the extent applicable, a "work made for hire," and Acacia will own all rights, title and interests thereto, including, without limitation, all rights under copyright, patent, trademark, statutory, common law and/or otherwise. By your execution of this Agreement, You hereby irrevocably and unconditionally assign to Acacia all right, title and interest in any such Intellectual Property. You further agree to take all such steps and all further action as Acacia may reasonably request to effectuate the foregoing, including, without limitation, the execution and delivery of such documents and applications as Acacia may reasonably request to secure the rights to Intellectual Property worldwide by patent, copyright or otherwise to Acacia or its successors and assigns. You further agree promptly and fully to disclose any Intellectual Property to the officers of Acacia and to deliver to such officers all papers, drawings, models, data and other material (collectively, the "Material") relating to any Intellectual Property made, reduced to practice, developed, created or contributed to by You and, upon termination, or expiration of your employment with Acacia, to turn over to Acacia all such Material. Any intellectual property which was developed by You prior to the date of this agreement, or which is developed by You during or after the termination of this Agreement and is not in any way related to any of Acacia's or any of its subsidiaries' or affiliates' intellectual property, will be owned by You.

7. **Other Activities, Non-Solicitation.** During the term of this Agreement, You will not engage in any activities that are competitive with Acacia, or any of its affiliates or subsidiaries, or that would result in a conflict of interest. In the event of the termination of your employment for any reason, You, for a period of one year will not: (a) solicit for employment and then employ any employee of Acacia or any of its affiliates or subsidiaries or any person who is an independent contractor involved in any of its affiliates or subsidiaries; (b) make any public statement concerning Acacia, or any of its affiliates or subsidiaries, or your employment, unless previously approved by Acacia, except as may be required by law or as otherwise provided in Section 8 below; or (c) induce, attempt to induce or knowingly encourage any Customer of Acacia or any of its affiliates or subsidiaries to divert any business or income from Acacia or any of its affiliates or subsidiaries or to stop or alter the manner in which they are then doing business with Acacia or any of its affiliates or subsidiaries. In addition, in the event of the termination of your employment for any reason, You, for a period of two years will not serve as a director, officer, employee or consultant to any public company engaged in the business of acting as a patent assertion entity ("PAE"); provided that (i) You may be employed by or provide services to an affiliated group that has a business unit that acts as a PAE, which business unit comprises no more than fifteen percent (15%) of such affiliated group's overall business as measured by revenue, provided that You do not provide any direct services to the business unit (for the avoidance of doubt, it shall not be a violation of this Agreement for You to render services to a different business unit or to serve the parent of such business unit), and comply with Your obligations with respect to the Company's Confidential Information and (ii) You may become employed by or provide services to any private equity fund, hedge fund, or other similar investment vehicle that invests in or holds a position in a public entity that acts as a PAE, provided that Your services to such investment vehicle or its managers or advisors do not involve investment or management decisions with respect to any of such investment vehicle's public portfolio companies engaged as PAEs and You do not use any of the Company's Confidential Information. The term "Customer" will mean any individual or business firm that was or is a customer, client, licensee and/or licensor of, or one that was or is a party in an investor agreement with, or whose business was actively solicited by, Acacia or any of its affiliates or subsidiaries at any time, regardless of whether such customer was generated, in whole or in part, by your efforts.

8. **Non-Disparagement.** Because Acacia's and its affiliates' respective businesses involve a significant amount of third party litigation, You and other employees of Acacia will, from time-to-time during your employment under this Agreement, be in possession of privileged and/or sensitive information, which if used or disclosed in a manner adverse to Acacia and/or its affiliates would have a material and adverse effect on Acacia and/or its affiliates. Accordingly, during Your employment with Acacia or any of its subsidiaries and at all times thereafter, You agree not to (i) make any statements outside of Acacia (whether directly or through any other person or entity, and whether orally or in writing) that disparage, denigrate or malign Acacia or any of its affiliates or any of their respective businesses, activities, operations or the reputations of any of their respective directors, officers, managers, employees, representatives, owners or equityholders, or (ii) voluntarily participate, assist or testify in any legal proceeding against Acacia. This Non-Disparagement provision will not apply (1) if You are compelled to testify in a legal proceeding, solely with respect to the specific information that You are compelled to include in such testimony, (2) if in connection with You filing a charge with, participating in a proceeding before or otherwise communicating with the Equal Employment Opportunity Commission, the National Labor Relations Board, the Occupational Safety and Health Administration, the Securities and Exchange Commission or any other federal, state or local governmental agency or commission, (3) in connection with any arbitration claim, or other proceeding brought by You, or in which You are a plaintiff, against Acacia or any of its affiliates or any of their respective directors, officers, managers, employees, representatives, owners or equityholders, or (4) to the extent precluded by applicable law.

9. **Remedies.** Each of the parties to this Agreement will be entitled to enforce its rights under this Agreement specifically, to recover damages by reason of any breach of any provision of this Agreement and to exercise all other rights existing in its favor. The parties agree and acknowledge that money damages may not be an adequate remedy for any breach of the provisions of this Agreement and that any party may in its sole discretion apply to any court of law or equity of competent jurisdiction for injunctive relief without the need for an undertaking in order to enforce or prevent any violations of the provisions of this Agreement.

10. **Assignment.** This Agreement is personal to You and may not be assigned in any way by You without the prior written consent of Acacia. Any such attempted assignment without Acacia's written consent will be void.

11. **Severability and Reformation.** The parties intend all provisions of this Agreement to be enforced to the fullest extent permitted by law. If, however, any provision of this Agreement is held to be illegal, invalid, or unenforceable under present or future law, such provision will be fully severable, and this Agreement will be construed and enforced as if such illegal, invalid, or unenforceable provision were never a part hereof and the remaining provisions will remain in full force and effect. Moreover, any provision so affected will be limited only to the extent necessary to bring the Agreement within the applicable requirements of law.

12. **Governing Law and Venue.** This Agreement is to be governed by and construed in accordance with the laws of the State of New York applicable to contracts made and to be performed wholly within such State, and without regard to the conflicts of laws principles thereof.

13. **Arbitration.** Except as otherwise set forth in Section 9 above, any controversy, claim or dispute arising out of or in any way relating to this Agreement, the alleged breach thereof, and/or your employment with Acacia or its termination including, without limitation, claims for breach of any express or implied contract, tort claims, claims for violation of any federal, state or other governmental law, statute, ordinance, Executive Order or regulation, and any and all claims for employment discrimination or harassment, will be determined by binding arbitration administered by the American Arbitration Association under its National Rules for Resolution of Employment Disputes ("Rules") which are in effect at the time of the arbitration. In reaching a decision, the arbitrator will have no authority to change, extend, modify or suspend any of the terms of this Agreement. The arbitration will be commenced and heard in New York County, New York. The arbitrator will apply the substantive law (and the law of remedies, if applicable) of New York or federal law, or both, as applicable to the claim(s) asserted. The Arbitrator will issue a written decision explaining his/his award. Judgment on the award may be entered in any court of competent jurisdiction, even if a party who received notice under the Rules fails to appear at the arbitration hearing(s). The parties may seek, from a court of competent jurisdiction, provisional remedies or injunctive relief in support of their respective rights and remedies hereunder without waiving any right to arbitration. However, the merits of any action that involves such provisional remedies or injunctive relief, including, without limitation, the terms of any permanent injunction, will be determined by arbitration under this paragraph. Notwithstanding the foregoing, claims for workers' compensation benefits, unemployment compensation benefits, or claims based upon an employee benefit plan which provides by its own terms for arbitration are exempted from the provisions of this Paragraph. In any arbitration hereunder, the parties will each pay for their costs and attorneys' fees, if any. However, if either party prevails on a statutory claim which entitles the prevailing party to attorneys' fees, the arbitrator may award reasonable attorneys' fees to the prevailing party in accordance with that statute. If any claim or class of claim is determined by applicable law not to be subject to arbitration, this Agreement to arbitrate will remain in full force and effect with respect to all other claims asserted between the parties.

14. **Entire Agreement, Amendment and Waiver.** This Agreement contains the entire understanding and agreement between the parties, and supersedes any other agreement between Acacia and You, whether oral or in writing, with respect to the subject matter hereof. This Agreement may not be altered or amended, nor may any of its provisions be waived, except by a writing signed by both parties hereto or, in the case of an asserted waiver, by the party against whom the waiver is sought to be enforced. Waiver of any provision of this Agreement, or any breach thereof, will not be deemed to be a waiver of any other provision or any subsequent alleged breach of this Agreement.

15. **Survival and Counterparts.** The provisions of Sections 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14 and 15 of this Agreement will survive the termination of this Agreement. This Agreement may be executed in counterparts, with the same effect as if both parties had signed the same document. All such counterparts will be deemed an original, will be construed together and will constitute one and the same instrument

16. **Stock Purchase Right.** The Company hereby consents to Your purchase of up to 7.5 percent of the Company's common stock (subject to your compliance with the Company's blackout policies and any other prohibition on purchasing securities while in possession of material non-public information) and shall take such actions as may be necessary to permit such purchases under the Company's Tax Benefits Preservation Plan.

17. **Clawback, Stock Ownership and Holding Period Requirements** . Notwithstanding any other provision in this Agreement to the contrary, You shall be subject to the written policies of the Company's Board of Directors applicable to Company executives, relating to recoupment or "clawback" of incentive compensation.

18. **Section 280G Cutback.**

(a) Anything in this Agreement to the contrary notwithstanding, in the event that the Accounting Firm shall determine that receipt of all Payments would subject You to tax under Section 4999 of the Code, the Accounting Firm shall determine whether some amount of Agreement Payments meets the definition of "Reduced Amount." If the Accounting Firm determines that there is a Reduced Amount, then the aggregate Agreement Payments shall be reduced to such Reduced Amount.

(b) If the Accounting Firm determines that the aggregate Agreement Payments should be reduced to the Reduced Amount, the Company shall promptly give You notice to that effect and a copy of the detailed calculation thereof, and You may then elect, in Your sole discretion, which and how much of the Agreement Payments shall be eliminated or reduced (as long as after such election the Present Value of the aggregate Agreement Payments equals the Reduced Amount). All determinations made by the Accounting Firm under this Paragraph shall be binding upon the Company and its affiliates. In connection with making determinations under this Paragraph, the Accounting Firm shall take into account the value of any reasonable compensation for services to be rendered by You before or after the Change in Control, including any non-competition provisions that may apply to You and the Company and its affiliates shall cooperate in the valuation of any such services, including any non-competition provisions.

(c) As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that amounts will have been paid or distributed by the Company or its affiliates to or for Your benefit pursuant to this Agreement which should not have been so paid or distributed (each, an "Overpayment") or that additional amounts which will have not been paid or distributed by the Company to or for Your benefit pursuant to this Agreement could have been so paid or distributed (each, an "Underpayment"), in each case, consistent with the calculation of the Reduced Amount hereunder. In the event that the Accounting Firm, based upon the assertion of a deficiency by the Internal Revenue Service against either the Company or You which the Accounting Firm believes has a high probability of success determines that an Overpayment has been made, any such Overpayment paid or distributed by the Company to or for Your benefit shall be repaid by You to the Company together with interest at the applicable federal rate provided for in Section 7872(f)(2) of the Code; provided, however, that no such repayment shall be required if and to the extent such deemed repayment would not either reduce the amount on which You are subject to tax under Section 1 and Section 4999 of the Code or generate a refund of such taxes. In the event that the Accounting Firm, based upon controlling precedent or substantial authority, determines that an Underpayment has occurred, any such Underpayment shall be promptly paid by the Company to or for Your benefit together with interest at the applicable federal rate provided for in Section 7872(f)(2) of the Code. All fees and expenses of the Accounting Firm in implementing the provisions of this Paragraph shall be borne by the Company.

(d) The following terms shall have the following meanings for purposes of this Paragraph. (1) A "Payment" shall mean any payment or distribution in the nature of compensation (within the meaning of Section 280G(b)(2) of the Code) to or for your benefit, whether paid or payable pursuant to this Agreement or otherwise; (2) "Agreement Payment" shall mean a Payment paid or payable pursuant to this Agreement (disregarding this Paragraph); (3) "Net After-Tax Receipt" shall mean the Present Value of a Payment net of all taxes imposed on you with respect thereto under Sections 1 and 4999 of the Code and under applicable state and local laws, determined by applying the highest marginal rate under Section 1 of the Code and under state and local laws which applied to your taxable income for the immediately preceding taxable year, or such other rate(s) as you shall certify, in your sole discretion, as likely to apply to you in the relevant tax year(s); (4) "Accounting Firm" shall mean Golden Parachute Tax Solutions LLC or such other nationally recognized accounting firm selected by you; (5) "Parachute Value" of a Payment shall mean the present value as of the date of the change of control for purposes of Section 280G of the Code of the portion of such Payment that constitutes a "parachute payment" under Section 280G(b)(2), as determined by the Accounting Firm for purposes of determining whether and to what extent the Excise Tax will apply to such Payment; and (6) "Reduced Amount" shall mean the amount of Agreement Payments that (x) has a Present Value that is less than the Present Value of all Agreement Payments and (y) results in aggregate Net After-Tax Receipts for all Payments that are greater than the Net After-Tax Receipts for all Payments that would result if the aggregate Present Value of Agreement Payments were any other amount that is less than the Present Value of all Agreement Payments.

19. **Section 409A.** To the extent (i) any payments to which You become entitled under this agreement, or any agreement or plan referenced herein, in connection with Your termination of employment with the Company and its affiliates, constitute deferred compensation subject to Section 409A of the Internal Revenue Code ("Section 409A") and (ii) You are deemed at the time of such termination of employment to be a "specified" employee under Section 409A, then such payment or payments shall not be made or commence until the earlier of (i) the expiration of the 6-month period measured from the date of your "separation from service" (as such term is at the time defined in regulations under Section 409A) with the Company and its affiliates and (ii) the date of Your death following such separation from service, provided, however, that such deferral shall be effected only to the extent required to avoid adverse tax treatment to You, including (without limitation) the additional twenty-percent (20%) tax for which You would otherwise be liable under Section 409A(a)(1)(B) in the absence of such deferral. Upon the expiration of the applicable deferral period, any payments which would have otherwise been made during that period (whether in a single sum or in installments) in the absence of this paragraph shall be paid to You or Your beneficiary in one lump sum (without interest). To the extent that any provision of this Agreement is ambiguous as to its exemption or compliance with Section 409A, the provision will be read in such a manner so that (i) all payments hereunder are exempt from Section 409A to the maximum permissible extent and, (ii) for any payments where such construction is not tenable, so that those payments comply with Section 409A to the maximum permissible extent. Payments pursuant to this Agreement (or referenced in this Agreement), and each installment thereof, are intended to constitute separate payments for purposes of Section 1.409A-2(b)(2) of the regulations under Section 409A. All references to termination of employment or similar terms shall be deemed to mean separation from service within the meaning of Section 409A. Notwithstanding anything to the contrary herein, except to the extent any expense, reimbursement or in-kind benefit provided pursuant to this Agreement does not constitute a "deferral of compensation" within the meaning of Section 409A: (x) the amount of expenses eligible for reimbursement or in-kind benefits provided to You during any calendar year will not affect the amount of expenses eligible for reimbursement or in-kind benefits provided to You in any other calendar year, (y) the Company or its affiliates will reimburse You for expenses for which You are entitled to be reimbursed on or before the last day of the calendar year following the calendar year in which the applicable expense is incurred or, if earlier, within 30 days after You have substantiated the expense, and (z) the right to payment or reimbursement or in-kind benefits hereunder may not be liquidated or exchanged for any other benefit.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

ACACIA RESEARCH GROUP LLC

By: /s/ Marc W. Booth
Name: Marc W. Booth
Its: CEO and President

ACACIA RESEARCH CORPORATION

By: /s/ Maureen O'Connell
Name: Maureen O'Connell
Its: Chairman

/s/ Clifford Press
Clifford Press

EXHIBIT RS

Initial Equity Grant

The restricted stock units granted pursuant to the Initial Equity Grant shall vest in accordance with the following schedule: (i) 80,000 restricted stock units shall vest on September 3, 2022 (the "Vesting Date") if the Company achieves a total shareholder return ("TSR") compound annual growth rate ("CAGR") of 8.0% during the performance period starting on September 3, 2019 and ending on the Vesting Date (the "Performance Period"), (ii) 140,000 additional restricted stock units shall vest on the Vesting Date if the Company achieves a TSR CAGR of 12.0% during the Performance Period, and (iii) 230,000 additional restricted stock units shall vest on the Vesting Date if the Company achieves a TSR CAGR of 16.0% during the Performance Period.

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the "Agreement"), dated September 3, 2019 is entered into by and among Acacia Research Group LLC, a Texas limited liability company ("Acacia"), Acacia Research Corporation (the "Company") and Alfred Tobia ("You"), on the following terms and conditions.

BACKGROUND

Acacia, the Company and You desire to enter into this Agreement, subject to the terms and conditions as set forth below.

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants set forth herein, Acacia and You, intending to be legally bound, hereby agree as follows:

1. **Position and Responsibilities.** You will be employed as Chief Investment Officer of the Company and serve as a member of the Board of Directors of the Company (the "Board") with duties, responsibilities and authorities commensurate with such positions, reporting directly and exclusively to the Board. The start date at which You will begin employment at Acacia will be September 3, 2019 ("Start Date"). You agree that, at all times during your employment hereunder, You will be subject to and comply with Acacia's personnel policies including Acacia's Insider Trading Policy (attached hereto as Exhibit A), Sexual Harassment Policy and general Harassment Policy (attached hereto as Exhibits B-1 and B-2, respectively) and Employee Handbook, all as may be modified from time to time. You will devote substantially all of your working time and efforts to Acacia's business; provided that, so long as such activities do not materially interfere with Your duties to the Company, You shall be permitted to (a) serve on civic and charitable boards, (b) manage personal, financial and legal affairs and investments and (c) serve on at least one additional for profit board of directors (and any committees related thereto); provided, further, that in all events you shall be permitted to continue to engage in the activities set forth on Schedule A. The Company shall adopt, and You agree to be subject to and comply with, policies related to Your outside business activities, which policies shall also address any fees You may receive during the term of Your employment in connection with serving on boards or committees of any third party entities.

2. **Employment.** Your employment will be at-will and may be terminated by Acacia or You for any reason. This at-will arrangement cannot be changed during your employment, unless agreed to in writing by the Board.

3. **Compensation.** For all services rendered by You pursuant to this Agreement, Acacia will pay You, subject to your adherence to all of the terms of this Agreement, and You will accept as full compensation hereunder, the following:

3.1 **Salary.** Acacia will pay You an annual salary of \$475,000, which shall be reviewed by the Compensation Committee of the Board (the "Committee") at least annually for increase, but not decrease (such salary as increased from time to time (the "Salary"). The Salary will be subject to all appropriate federal and state withholding taxes and will be payable bi-weekly, in accordance with the normal payroll procedures of Acacia. In addition, within 15 days of the Start Date, Acacia will pay you \$79,166.66 in consideration for services provided by You on behalf of the Company from July 1, 2019 through the date hereof.

3.2 **Discretionary Bonus.** At the end of each calendar year, if employed at Acacia, You will be eligible for a discretionary cash bonus of between 50% and 150% of the Salary, with a target bonus of 100% of Your Salary (the "Target Bonus"), based on the achievement of operational and strategic performance goals established by the Committee in consultation with You. For calendar year 2019, (a) the performance goals established by the Committee shall be strategic, (b) the bonus paid shall be prorated based on the number of days that You were employed during the year commencing on the Start Date, and (c) the bonus shall be paid to You no later than December 31, 2019. Except as provided in the immediately preceding sentence, such discretionary annual bonus will be evaluated and paid (if applicable) no later than the end of the month following the calendar year to which such bonus relates. The discretionary annual bonus will be subject to all appropriate federal and state withholding taxes in accordance with the normal payroll procedures of Acacia.

3.3 **Restricted Stock Units.** As of the date hereof, You will be granted restricted stock units of the Company (Nasdaq: ACTG) having a grant date fair value of \$650,000 on the terms and conditions (including the vesting terms) set forth on Exhibit RS (the "Initial Equity Grant").

3.4 **Inducement Payment.** In consideration for Your agreement to accept Your position with Acacia and to relinquish various positions that You currently hold with other organizations, Acacia shall pay to you a lump sum cash payment of \$350,000, of which \$150,000 has been paid to you prior to the date hereof and of which the remaining \$200,000 shall be paid to you within 15 days of the Start Date. The payment described in the immediately preceding sentence will be subject to all appropriate federal and state withholding taxes in accordance with the normal payroll procedures of Acacia.

3.5 **Benefits and Perquisites.** Acacia will make benefits available to You, including, but not limited to, health, death and disability insurance, and the like, to the extent and on the terms made available to other similarly situated executives of Acacia. This provision does not alter Acacia's right to modify or eliminate any employee benefit and does not guarantee the continuation of any kind or level of benefits. Except to the extent otherwise expressly provided herein, all such benefits will cease upon the termination of your employment under this Agreement.

3.6 **Termination.** The employment relationship between You and Acacia created hereunder will terminate upon the occurrence of any one of the following events:

3.7 **Death or Permanent Disability.** Acacia may terminate this Agreement and any further obligations to You if You die or, due to physical or mental disability, You are, for a period in excess of 90 consecutive days or 120 days in any 180 day period, either (a) unable to reasonably and effectively carry out your duties with reasonable accommodations by Acacia or (b) unable to reasonably and effectively carry out your duties because any reasonable accommodation which may be required would cause Acacia undue hardship. In the event of a disagreement concerning your perceived disability, You will submit to such examinations as are deemed appropriate by three practicing physicians specializing in the area of your disability, one selected by You, one selected by Acacia, and one selected by both such physicians. The majority decision of such three physicians will be final and binding on the parties.

3.8 **Termination for Cause.** Your employment may be terminated at any time with or without Cause. For purposes of this Agreement, "Cause" shall mean:

(a) Your willful refusal to substantially perform your duties hereunder, or willful breach any of your material obligations under this Agreement;

(b) Your willful misconduct or gross negligence, which is likely to have the effect of demonstrably injuring the reputation, business or business relationship of Acacia;

(c) You are convicted of or plead guilty or *nolo contendere* to any criminal offense, or felony; or

(d) You embezzle or steal any of Acacia's funds or assets or commit any act of fraud with respect to any aspect of Acacia's business;

provided that Cause shall not apply to any act or omission described above unless the Board provides written notice of the act or omission and, with respect to clauses (a) or (b), the act or omission is cured within 10 days after receipt of such notice. Any act, or failure to act, based upon authority given pursuant to a resolution duly adopted by the Board or upon the instructions of the Board or the Chief Executive Officer or reasonably based upon the advice of counsel for the Company shall be conclusively presumed to be done, or omitted to be done, by You in good faith and in the best interests of the Company and no act or failure to act on Your part shall be considered "willful," so long as you reasonably believed that such action, or failure to act, was in the best interests of the Company.

3.9 Resignation by You with or without Good Reason. You may resign at any time without Good Reason upon providing the Company with 30 days prior written notice. You may resign at any time for Good Reason. For purposes of this Agreement, "Good Reason" shall mean, without Your prior written consent:

(a) A material reduction in Your Salary or Target Bonus (provided, that so long as the Target Bonus is in the range set forth in Section 3.2, there shall be no deemed "material reduction" in such Target Bonus even if the amount of the potential Target Bonus to be earned by You in a given year is less than the amount of the potential Target Bonus to be earned by you in the prior year);

(b) A change in Your title(s) or reporting relationship or a material reduction in your duties, responsibilities or authorities;

(c) A relocation of Your principal place of business from Manhattan, NY; or

(d) A material breach of this Agreement;

Your termination of employment will not be for Good Reason unless (1) You notify the Company in writing of the existence of the condition that You believe constitutes Good Reason within 60 days of the initial existence of such condition (which notice specifically identifies such condition), (2) the Company fails to remedy such condition within 30 days after the date on which it receives such notice (the "Remedial Period"), and (3) so long as the Company acknowledges in writing the existence of Good Reason by the end of the Remedial Period, You actually terminate employment within 30 days following the expiration of the Remedial Period and before the Company remedies such condition. If the Company does not acknowledge the existence of Good Reason by the end of the Remedial Period, You shall only be required to resign for Good Reason within two years after the end of the Remedial Period, unless at any time during such two year period the Company provides written notice to You that Good Reason exists in which case You shall have 30 days from Your receipt of such notice to resign for Good Reason.

4. Compensation Upon Termination.

4.1 Termination for Any Reason. Upon termination of your employment under this Agreement for any reason, the Company or one of its affiliates shall pay You: (i) unpaid salary earned through the date of termination; (ii) for any vacation time earned but not used as of the date Your employment terminates in accordance with Company policies as then in effect; (iii) reimbursement, in accordance with the Company's and its affiliates policies and procedures, for business expenses incurred by You but not yet paid to You as of the date Your employment terminates; (iv) except in the case of a termination by the Company and its affiliates for Cause, Your annual bonus for any completed fiscal year to the extent not yet paid and earned; and (v) all other payments, benefits or fringe benefits to which You are entitled under the terms of the applicable arrangements and/or applicable law (all of the foregoing clauses (i)-(v) collectively, the "Accrued Obligations").

4.2 Other Than Cause/For Good Reason. Upon termination of your employment under this Agreement by the Company and its affiliates other than for Cause, Death or Disability or by You for Good Reason, in addition to the Accrued Obligations, subject to Your execution and non-revocation of a release in the form attached hereto as Exhibit A and Your compliance with the restrictive covenants in Sections 5 through 8 below, You will be entitled to (i) a severance payment equal to the product of (A) 1.5 and (B) Your Salary (provided that if such termination occurs within one (1) year following a Change in Control (as defined on Exhibit CIC), such amount shall be equal to the product of (A) two and (B) sum of (1) Your Salary and (2) the Target Bonus), which severance payment shall be paid in 18 monthly installments commencing on the 60th day following Your date of termination, (ii) a payment in an amount equal to the product of (A) the Target Bonus and (B) a fraction, the numerator of which is the number of days in the year in which the date of termination occurs through the date of termination (or if the termination occurs in 2019 the number of days in the year from the Start Date until the date of termination) and the denominator of which is 365 (the "Pro Rata Bonus"), which payment shall be paid in 18 monthly installments commencing on the 60th day following Your date of termination, and (iii) to the extent that You participate in Acacia's health programs, the Company shall pay You an amount in cash, on a monthly basis, equal to the employer portion of the premiums for Your health plan benefits for You and Your eligible dependents for a period of 18 months commencing on Your date of termination (the "Health Benefits"). In addition, upon a termination by the Company without Cause or a resignation by You for Good Reason, in each case if such termination occurs within one (1) year following a Change in Control, with respect to the Initial Equity Grant, You will immediately be deemed to have satisfied any time-based and performance-based vesting requirements (the "Equity Benefits").

4.3 **Death/Disability.** Upon termination of Your employment under this Agreement by reason of Your death or Disability, in addition to the Accrued Obligations, You (or Your estate or guardian, as applicable) shall be paid or provided the Pro Rata Bonus and the Health Benefits.

4.4 **Remedy.** Should Acacia terminate your employment for Cause, and it is later determined that Acacia did not have Cause for the termination, then Acacia's decision to terminate You will be deemed to have been made without Cause and Acacia will pay You the compensation as set forth in this Agreement, as your sole and exclusive remedy.

5. **Confidentiality.**

5.1 **Confidential Information.** Acacia and You recognize that You will acquire certain confidential and proprietary information relating to Acacia's business and the business of Acacia's affiliates. Such confidential and proprietary information is information that derives independent economic value, actual or potential, from not being generally known to the public or to other persons who can obtain economic value from its disclosure or use, and is the subject of efforts that are reasonable under the circumstances to maintain its secrecy ("Confidential Information"). Confidential Information may include, without limitation, the following: business plans, projections, information (including, without limitation, privileged information) relating to any litigation or other proceeding to which Acacia or any of its affiliates are parties to, planning and strategies, marketing plans, materials, pricing, programs and related data, product information, services, budgets, acquisition plans, the names or addresses of any employees, independent contractors or customers, licensing strategy, statistical data, financial information or arrangements, manuals, forms, techniques, know-how, trade secrets, software, any method or procedure of Acacia's business, whether developed by Acacia or developed, or contributed to, by You during the course of your employment, or made available to You by Acacia or any of Acacia's affiliates in the course of your employment, or any market development, research or expansion projects, business systems and procedures and other confidential business and proprietary information. Confidential Information may be contained in written materials, verbal communications, the unwritten knowledge of employees, or any other tangible medium, such as tape, computer, or other means of electronic storage of information.

5.2 **Obligation of Confidentiality.** You acknowledge and agree that (a) all of the Confidential Information constitutes special, unique and valuable assets of Acacia and trade secrets, the disclosure of which would cause irreparable harm and substantial loss to Acacia and/or its affiliates. In view of the foregoing, You agree that at no time will You, directly or indirectly, and whether during or after your employment with Acacia, use, reveal, disclose or make known any Confidential Information without specific written authorization from or written direction by Acacia. You further agree that, immediately upon termination or expiration of your employment for any reason whatsoever, or at any time upon request by Acacia, You will return to Acacia all Confidential Information. Notwithstanding the foregoing, any restriction on Your use, disclosure, or conveyance of Confidential Information shall not apply to (i) any Confidential Information that enters the public domain through no fault of Yours or any person affiliated with You; (ii) any Confidential Information that You are required to disclose pursuant to applicable law or legal process, an order of a court of competent jurisdiction or a government agency having appropriate authority, solely to the extent necessary to comply with such order; and (iii) any use or disclosure, during the course of Your service with Acacia of Confidential Information made necessary by the proper conduct of the business of Acacia and consistent with the instructions of Acacia. Nothing in any code, agreement, manual or in any other policies, procedures or agreements of Acacia or its affiliates shall prohibit or restrict You or Your counsel from providing information in connection with: (a) any disclosure of information required by law or legal process; (b) reporting possible violations of federal or state law or regulation to any governmental agency, commission or entity or self-regulatory organization (collectively "Government Agencies") (c) filing a charge or complaint with Government Agencies; (d) making disclosures that are protected under the whistleblower provisions of federal or state law or regulation (collectively the "Whistleblower Statutes"); or (e) from initiating communications directly with, responding to any inquiry from, volunteering information to, testifying or otherwise participating in or assisting in any inquiry, investigation or proceeding brought by Government Agencies in connection with (a) through (e). You are not required to advise or seek permission from Acacia or its affiliates before engaging in any activity set forth in (a) through (e). Further, Acacia and its affiliates do not in any manner limit Your right to receive an award from Government Agencies for information provided to Government Agencies or pursuant to the Whistleblower Statutes. In no event shall You be prohibited from disclosing Confidential Information to Your legal advisors or from providing information regarding Your compensation or the terms of this Agreement to any financial or tax advisors.

6. **Intellectual Property.** You agree that any and all discoveries, concepts, ideas, inventions, writings, plans, articles, devices, products, designs, treatments, structures, processes, methods, formulae, techniques and drawings, and improvements or modifications related to the foregoing that are in any way related to intellectual property owned or controlled by Acacia or its affiliates or subsidiaries, whether patentable, copyrightable or not, which are made, developed, created, contributed to, reduced to practice, or conceived by You, whether solely or jointly with others, in connection with your employment with Acacia (collectively, the "Intellectual Property") will be and remain the exclusive property of Acacia, and, to the extent applicable, a "work made for hire," and Acacia will own all rights, title and interests thereto, including, without limitation, all rights under copyright, patent, trademark, statutory, common law and/or otherwise. By your execution of this Agreement, You hereby irrevocably and unconditionally assign to Acacia all right, title and interest in any such Intellectual Property. You further agree to take all such steps and all further action as Acacia may reasonably request to effectuate the foregoing, including, without limitation, the execution and delivery of such documents and applications as Acacia may reasonably request to secure the rights to Intellectual Property worldwide by patent, copyright or otherwise to Acacia or its successors and assigns. You further agree promptly and fully to disclose any Intellectual Property to the officers of Acacia and to deliver to such officers all papers, drawings, models, data and other material (collectively, the "Material") relating to any Intellectual Property made, reduced to practice, developed, created or contributed to by You and, upon termination, or expiration of your employment with Acacia, to turn over to Acacia all such Material. Any intellectual property which was developed by You prior to the date of this agreement, or which is developed by You during or after the termination of this Agreement and is not in any way related to any of Acacia's or any of its subsidiaries' or affiliates' intellectual property, will be owned by You.

7. **Other Activities, Non-Solicitation.** During the term of this Agreement, You will not engage in any activities that are competitive with Acacia, or any of its affiliates or subsidiaries, or that would result in a conflict of interest. In the event of the termination of your employment for any reason, You, for a period of one year will not: (a) solicit for employment and then employ any employee of Acacia or any of its affiliates or subsidiaries or any person who is an independent contractor involved in any of its affiliates or subsidiaries; (b) make any public statement concerning Acacia, or any of its affiliates or subsidiaries, or your employment, unless previously approved by Acacia, except as may be required by law or as otherwise provided in Section 8 below; or (c) induce, attempt to induce or knowingly encourage any Customer of Acacia or any of its affiliates or subsidiaries to divert any business or income from Acacia or any of its affiliates or subsidiaries or to stop or alter the manner in which they are then doing business with Acacia or any of its affiliates or subsidiaries. In addition, in the event of the termination of your employment for any reason, You, for a period of two years will not serve as a director, officer, employee or consultant to any public company engaged in the business of acting as a patent assertion entity ("PAE"); provided that (i) You may be employed by or provide services to an affiliated group that has a business unit that acts as a PAE, which business unit comprises no more than fifteen percent (15%) of such affiliated group's overall business as measured by revenue, provided that You do not provide any direct services to the business unit (for the avoidance of doubt, it shall not be a violation of this Agreement for You to render services to a different business unit or to serve the parent of such business unit), and comply with Your obligations with respect to the Company's Confidential Information and (ii) You may become employed by or provide services to any private equity fund, hedge fund, or other similar investment vehicle that invests in or holds a position in a public entity that acts as a PAE, provided that Your services to such investment vehicle or its managers or advisors do not involve investment or management decisions with respect to any of such investment vehicle's public portfolio companies engaged as PAEs and You do not use any of the Company's Confidential Information. The term "Customer" will mean any individual or business firm that was or is a customer, client, licensee and/or licensor of, or one that was or is a party in an investor agreement with, or whose business was actively solicited by, Acacia or any of its affiliates or subsidiaries at any time, regardless of whether such customer was generated, in whole or in part, by your efforts.

8. **Non-Disparagement.** Because Acacia's and its affiliates' respective businesses involve a significant amount of third party litigation, You and other employees of Acacia will, from time-to-time during your employment under this Agreement, be in possession of privileged and/or sensitive information, which if used or disclosed in a manner adverse to Acacia and/or its affiliates would have a material and adverse effect on Acacia and/or its affiliates. Accordingly, during Your employment with Acacia or any of its subsidiaries and at all times thereafter, You agree not to (i) make any statements outside of Acacia (whether directly or through any other person or entity, and whether orally or in writing) that disparage, denigrate or malign Acacia or any of its affiliates or any of their respective businesses, activities, operations or the reputations of any of their respective directors, officers, managers, employees, representatives, owners or equityholders, or (ii) voluntarily participate, assist or testify in any legal proceeding against Acacia. This Non-Disparagement provision will not apply (1) if You are compelled to testify in a legal proceeding, solely with respect to the specific information that You are compelled to include in such testimony, (2) if in connection with You filing a charge with, participating in a proceeding before or otherwise communicating with the Equal Employment Opportunity Commission, the National Labor Relations Board, the Occupational Safety and Health Administration, the Securities and Exchange Commission or any other federal, state or local governmental agency or commission, (3) in connection with any arbitration claim, or other proceeding brought by You, or in which You are a plaintiff, against Acacia or any of its affiliates or any of their respective directors, officers, managers, employees, representatives, owners or equityholders, or (4) to the extent precluded by applicable law.

9. **Remedies.** Each of the parties to this Agreement will be entitled to enforce its rights under this Agreement specifically, to recover damages by reason of any breach of any provision of this Agreement and to exercise all other rights existing in its favor. The parties agree and acknowledge that money damages may not be an adequate remedy for any breach of the provisions of this Agreement and that any party may in its sole discretion apply to any court of law or equity of competent jurisdiction for injunctive relief without the need for an undertaking in order to enforce or prevent any violations of the provisions of this Agreement.

10. **Assignment.** This Agreement is personal to You and may not be assigned in any way by You without the prior written consent of Acacia. Any such attempted assignment without Acacia's written consent will be void.

11. **Severability and Reformation.** The parties intend all provisions of this Agreement to be enforced to the fullest extent permitted by law. If, however, any provision of this Agreement is held to be illegal, invalid, or unenforceable under present or future law, such provision will be fully severable, and this Agreement will be construed and enforced as if such illegal, invalid, or unenforceable provision were never a part hereof and the remaining provisions will remain in full force and effect. Moreover, any provision so affected will be limited only to the extent necessary to bring the Agreement within the applicable requirements of law.

12. **Governing Law and Venue.** This Agreement is to be governed by and construed in accordance with the laws of the State of New York applicable to contracts made and to be performed wholly within such State, and without regard to the conflicts of laws principles thereof.

13. **Arbitration.** Except as otherwise set forth in Section 9 above, any controversy, claim or dispute arising out of or in any way relating to this Agreement, the alleged breach thereof, and/or your employment with Acacia or its termination including, without limitation, claims for breach of any express or implied contract, tort claims, claims for violation of any federal, state or other governmental law, statute, ordinance, Executive Order or regulation, and any and all claims for employment discrimination or harassment, will be determined by binding arbitration administered by the American Arbitration Association under its National Rules for Resolution of Employment Disputes ("Rules") which are in effect at the time of the arbitration. In reaching a decision, the arbitrator will have no authority to change, extend, modify or suspend any of the terms of this Agreement. The arbitration will be commenced and heard in New York County, New York. The arbitrator will apply the substantive law (and the law of remedies, if applicable) of New York or federal law, or both, as applicable to the claim(s) asserted. The Arbitrator will issue a written decision explaining his/his award. Judgment on the award may be entered in any court of competent jurisdiction, even if a party who received notice under the Rules fails to appear at the arbitration hearing(s). The parties may seek, from a court of competent jurisdiction, provisional remedies or injunctive relief in support of their respective rights and remedies hereunder without waiving any right to arbitration. However, the merits of any action that involves such provisional remedies or injunctive relief, including, without limitation, the terms of any permanent injunction, will be determined by arbitration under this paragraph. Notwithstanding the foregoing, claims for workers' compensation benefits, unemployment compensation benefits, or claims based upon an employee benefit plan which provides by its own terms for arbitration are exempted from the provisions of this Paragraph. In any arbitration hereunder, the parties will each pay for their costs and attorneys' fees, if any. However, if either party prevails on a statutory claim which entitles the prevailing party to attorneys' fees, the arbitrator may award reasonable attorneys' fees to the prevailing party in accordance with that statute. If any claim or class of claim is determined by applicable law not to be subject to arbitration, this Agreement to arbitrate will remain in full force and effect with respect to all other claims asserted between the parties.

14. **Entire Agreement, Amendment and Waiver.** This Agreement contains the entire understanding and agreement between the parties, and supersedes any other agreement between Acacia and You, whether oral or in writing, with respect to the subject matter hereof. This Agreement may not be altered or amended, nor may any of its provisions be waived, except by a writing signed by both parties hereto or, in the case of an asserted waiver, by the party against whom the waiver is sought to be enforced. Waiver of any provision of this Agreement, or any breach thereof, will not be deemed to be a waiver of any other provision or any subsequent alleged breach of this Agreement.

15. **Survival and Counterparts.** The provisions of Sections 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14 and 15 of this Agreement will survive the termination of this Agreement. This Agreement may be executed in counterparts, with the same effect as if both parties had signed the same document. All such counterparts will be deemed an original, will be construed together and will constitute one and the same instrument

16. **Stock Purchase Right.** The Company hereby consents to Your purchase of up to 7.5 percent of the Company's common stock (subject to your compliance with the Company's blackout policies and any other prohibition on purchasing securities while in possession of material non-public information) and shall take such actions as may be necessary to permit such purchases under the Company's Tax Benefits Preservation Plan.

17. **Clawback, Stock Ownership and Holding Period Requirements** . Notwithstanding any other provision in this Agreement to the contrary, You shall be subject to the written policies of the Company's Board of Directors applicable to Company executives, relating to recoupment or "clawback" of incentive compensation.

18. Section 280G Cutback.

(a) Anything in this Agreement to the contrary notwithstanding, in the event that the Accounting Firm shall determine that receipt of all Payments would subject You to tax under Section 4999 of the Code, the Accounting Firm shall determine whether some amount of Agreement Payments meets the definition of "Reduced Amount." If the Accounting Firm determines that there is a Reduced Amount, then the aggregate Agreement Payments shall be reduced to such Reduced Amount.

(b) If the Accounting Firm determines that the aggregate Agreement Payments should be reduced to the Reduced Amount, the Company shall promptly give You notice to that effect and a copy of the detailed calculation thereof, and You may then elect, in Your sole discretion, which and how much of the Agreement Payments shall be eliminated or reduced (as long as after such election the Present Value of the aggregate Agreement Payments equals the Reduced Amount). All determinations made by the Accounting Firm under this Paragraph shall be binding upon the Company and its affiliates. In connection with making determinations under this Paragraph, the Accounting Firm shall take into account the value of any reasonable compensation for services to be rendered by You before or after the Change in Control, including any non-competition provisions that may apply to You and the Company and its affiliates shall cooperate in the valuation of any such services, including any non-competition provisions.

(c) As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that amounts will have been paid or distributed by the Company or its affiliates to or for Your benefit pursuant to this Agreement which should not have been so paid or distributed (each, an "Overpayment") or that additional amounts which will have not been paid or distributed by the Company to or for Your benefit pursuant to this Agreement could have been so paid or distributed (each, an "Underpayment"), in each case, consistent with the calculation of the Reduced Amount hereunder. In the event that the Accounting Firm, based upon the assertion of a deficiency by the Internal Revenue Service against either the Company or You which the Accounting Firm believes has a high probability of success determines that an Overpayment has been made, any such Overpayment paid or distributed by the Company to or for Your benefit shall be repaid by You to the Company together with interest at the applicable federal rate provided for in Section 7872(f)(2) of the Code; provided, however, that no such repayment shall be required if and to the extent such deemed repayment would not either reduce the amount on which You are subject to tax under Section 1 and Section 4999 of the Code or generate a refund of such taxes. In the event that the Accounting Firm, based upon controlling precedent or substantial authority, determines that an Underpayment has occurred, any such Underpayment shall be promptly paid by the Company to or for Your benefit together with interest at the applicable federal rate provided for in Section 7872(f)(2) of the Code. All fees and expenses of the Accounting Firm in implementing the provisions of this Paragraph shall be borne by the Company.

(d) The following terms shall have the following meanings for purposes of this Paragraph. (1) A "Payment" shall mean any payment or distribution in the nature of compensation (within the meaning of Section 280G(b)(2) of the Code) to or for your benefit, whether paid or payable pursuant to this Agreement or otherwise; (2) "Agreement Payment" shall mean a Payment paid or payable pursuant to this Agreement (disregarding this Paragraph); (3) "Net After-Tax Receipt" shall mean the Present Value of a Payment net of all taxes imposed on you with respect thereto under Sections 1 and 4999 of the Code and under applicable state and local laws, determined by applying the highest marginal rate under Section 1 of the Code and under state and local laws which applied to your taxable income for the immediately preceding taxable year, or such other rate(s) as you shall certify, in your sole discretion, as likely to apply to you in the relevant tax year(s); (4) "Accounting Firm" shall mean Golden Parachute Tax Solutions LLC or such other nationally recognized accounting firm selected by you; (5) "Parachute Value" of a Payment shall mean the present value as of the date of the change of control for purposes of Section 280G of the Code of the portion of such Payment that constitutes a "parachute payment" under Section 280G(b)(2), as determined by the Accounting Firm for purposes of determining whether and to what extent the Excise Tax will apply to such Payment; and (6) "Reduced Amount" shall mean the amount of Agreement Payments that (x) has a Present Value that is less than the Present Value of all Agreement Payments and (y) results in aggregate Net After-Tax Receipts for all Payments that are greater than the Net After-Tax Receipts for all Payments that would result if the aggregate Present Value of Agreement Payments were any other amount that is less than the Present Value of all Agreement Payments.

19. **Section 409A.** To the extent (i) any payments to which You become entitled under this agreement, or any agreement or plan referenced herein, in connection with Your termination of employment with the Company and its affiliates, constitute deferred compensation subject to Section 409A of the Internal Revenue Code ("Section 409A") and (ii) You are deemed at the time of such termination of employment to be a "specified" employee under Section 409A, then such payment or payments shall not be made or commence until the earlier of (i) the expiration of the 6-month period measured from the date of your "separation from service" (as such term is at the time defined in regulations under Section 409A) with the Company and its affiliates and (ii) the date of Your death following such separation from service, provided, however, that such deferral shall be effected only to the extent required to avoid adverse tax treatment to You, including (without limitation) the additional twenty-percent (20%) tax for which You would otherwise be liable under Section 409A(a)(1)(B) in the absence of such deferral. Upon the expiration of the applicable deferral period, any payments which would have otherwise been made during that period (whether in a single sum or in installments) in the absence of this paragraph shall be paid to You or Your beneficiary in one lump sum (without interest). To the extent that any provision of this Agreement is ambiguous as to its exemption or compliance with Section 409A, the provision will be read in such a manner so that (i) all payments hereunder are exempt from Section 409A to the maximum permissible extent and, (ii) for any payments where such construction is not tenable, so that those payments comply with Section 409A to the maximum permissible extent. Payments pursuant to this Agreement (or referenced in this Agreement), and each installment thereof, are intended to constitute separate payments for purposes of Section 1.409A-2(b)(2) of the regulations under Section 409A. All references to termination of employment or similar terms shall be deemed to mean separation from service within the meaning of Section 409A. Notwithstanding anything to the contrary herein, except to the extent any expense, reimbursement or in-kind benefit provided pursuant to this Agreement does not constitute a "deferral of compensation" within the meaning of Section 409A: (x) the amount of expenses eligible for reimbursement or in-kind benefits provided to You during any calendar year will not affect the amount of expenses eligible for reimbursement or in-kind benefits provided to You in any other calendar year, (y) the Company or its affiliates will reimburse You for expenses for which You are entitled to be reimbursed on or before the last day of the calendar year following the calendar year in which the applicable expense is incurred or, if earlier, within 30 days after You have substantiated the expense, and (z) the right to payment or reimbursement or in-kind benefits hereunder may not be liquidated or exchanged for any other benefit.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

ACACIA RESEARCH GROUP LLC

By: /s/ Marc W. Booth
Name: Marc W. Booth
Its: CEO and President

ACACIA RESEARCH CORPORATION

By: /s/ Maureen O'Connell
Name: Maureen O'Connell
Its: Chairman

/s/ Alfred Tobia
Alfred Tobia

EXHIBIT RS

Initial Equity Grant

The restricted stock units granted pursuant to the Initial Equity Grant shall vest in accordance with the following schedule: (i) 80,000 restricted stock units shall vest on September 3, 2022 (the "Vesting Date") if the Company achieves a total shareholder return ("TSR") compound annual growth rate ("CAGR") of 8.0% during the performance period starting on September 3, 2019 and ending on the Vesting Date (the "Performance Period"), (ii) 140,000 additional restricted stock units shall vest on the Vesting Date if the Company achieves a TSR CAGR of 12.0% during the Performance Period, and (iii) 230,000 additional restricted stock units shall vest on the Vesting Date if the Company achieves a TSR CAGR of 16.0% during the Performance Period.

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

I, Clifford Press, 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: November 12, 2019

/s/ Clifford Press
Clifford Press
Chief Executive Officer

**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: November 12, 2019

/s/ Li Yu
Li Yu
Corporate Controller

**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 September 30, 2019, as filed with the Securities and Exchange Commission on November 12, 2019 (the "Report"), I, Clifford Press, Chief Executive 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 78o(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: November 12, 2019

By: /s/ Clifford Press
Clifford Press
Chief Executive 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.

**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 September 30, 2019, as filed with the Securities and Exchange Commission on November 12, 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 78o(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: November 12, 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.