

SECURITIES & EXCHANGE COMMISSION EDGAR FILING

ACACIA RESEARCH CORP

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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2020

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

Acacia Research Corporation
(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

95-4405754
(I.R.S. Employer
Identification No.)

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated Filer Accelerated Filer
Non-accelerated Filer Smaller reporting company
Emerging growth company

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

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

As of August 3, 2020, 49,279,453 shares of the registrant's common stock, \$0.001 par value, were issued and outstanding.

ACACIA RESEARCH CORPORATION
FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED

June 30, 2020

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q for the three months ended June 30, 2020, 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, the impact of the COVID-19 pandemic, 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, 2019, filed with the Securities and Exchange Commission, or the SEC, on March 16, 2020, or our Annual Report, as well as in our other public filings with the SEC. In addition, actual results may differ as a result of additional risks and uncertainties of which we are currently unaware or which we do not currently view as material to our business.

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

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

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

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

	June 30, 2020	December 31, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 164,280	\$ 57,359
Trading securities - debt	—	93,843
Trading securities - equity	19,697	17,140
Equity securities derivative	7,369	—
Equity securities forward contract	75,534	—
Prepaid investment	93,956	—
Accounts receivable	1,393	511
Prepaid expenses and other current assets	1,894	2,912
Total current assets	<u>364,123</u>	<u>171,765</u>
Long-term restricted cash	—	35,000
Investment at fair value (Note 5)	4,063	1,500
Patents, net of accumulated amortization	19,245	7,814
Leased right-of-use assets	1,249	1,264
Other non-current assets	5,466	818
Total assets	<u>\$ 394,146</u>	<u>\$ 218,161</u>
LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK, AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 3,235	\$ 1,765
Accrued expenses and other current liabilities	2,716	7,265
Accrued compensation	1,998	507
Royalties and contingent legal fees payable	2,143	2,178
Senior Secured Notes Payable - short term	113,401	—
Total current liabilities	<u>123,493</u>	<u>11,715</u>
Series A warrant liabilities	6,952	3,568
Series A embedded derivative liabilities	29,513	17,974
Series B warrant liabilities	58,290	—
Long-term lease liabilities	1,249	1,264
Other long-term liabilities	593	593
Total liabilities	<u>220,090</u>	<u>35,114</u>
Commitments and contingencies (Note 6)		
Series A redeemable convertible preferred stock, par value \$ 0.001 per share; stated value \$ 100 per share; 350,000 shares authorized, issued and outstanding as of June 30, 2020 and December 31, 2019, respectively; aggregate liquidation preference of \$35,000 as of June 30, 2020 and December 31, 2019, respectively	9,400	8,089
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; 300,000,000 shares authorized; 49,306,137 and 50,370,987 shares issued and outstanding as of June 30, 2020 and December 31, 2019, respectively	49	50
Treasury stock, at cost, 4,604,365 and 2,919,828 shares as of June 30, 2020 and December 31, 2019, respectively	(43,270)	(39,272)
Additional paid-in capital	650,843	652,003
Accumulated deficit	(444,799)	(439,656)
Total Acacia Research Corporation stockholders' equity	<u>162,823</u>	<u>173,125</u>
Noncontrolling interests	1,833	1,833
Total stockholders' equity	<u>164,656</u>	<u>174,958</u>
Total liabilities, redeemable convertible preferred stock, and stockholders' equity	<u>\$ 394,146</u>	<u>\$ 218,161</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 June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Revenues	\$ 2,118	\$ 5,460	\$ 5,933	\$ 8,847
Portfolio operations:				
Inventor royalties	645	2,623	1,071	3,976
Contingent legal fees	12	375	246	552
Litigation and licensing expenses - patents	1,459	1,855	2,496	5,656
Amortization of patents	1,305	818	2,348	1,474
Other portfolio expenses (income)	(74)	-	(308)	650
Total portfolio operations	3,347	5,671	5,853	12,308
Net portfolio income (loss)	(1,229)	(211)	80	(3,461)
General and administrative expenses ⁽¹⁾	5,519	3,763	10,397	7,418
Operating loss	(6,748)	(3,974)	(10,317)	(10,879)
Other income (expense):				
Change in fair value of investment, net (Note 5)	2,677	6,980	6,785	13,888
Gain (loss) on sale of investment (Note 5)	554	(1,642)	(2,762)	(7,232)
Impairment of other investment	-	(8,195)	-	(8,195)
Change in fair value of the Series A and B warrants and embedded derivatives	(62,902)	-	(67,284)	-
Change in fair value of equity securities derivative and forward contract	81,553	-	81,553	-
Change in fair value of trading securities	3,525	(61)	(2,592)	614
Gain (loss) on sale of trading securities	(7,121)	31	(7,009)	(12)
Loss on foreign currency exchange	(4,890)	-	(4,890)	-
Interest expense on Senior Secured Notes	(768)	-	(768)	-
Interest income and other	266	1,113	801	1,984
Total other income (expense)	12,894	(1,774)	3,834	1,047
Income (loss) before income taxes	6,146	(5,748)	(6,483)	(9,832)
Income tax benefit (expense)	2	(9)	1,340	(323)
Net income (loss) including noncontrolling interests in subsidiaries	6,148	(5,757)	(5,143)	(10,155)
Net loss attributable to noncontrolling interests in subsidiaries	-	-	-	14
Net income (loss) attributable to Acacia Research Corporation	\$ 6,148	\$ (5,757)	\$ (5,143)	\$ (10,141)
Net income (loss) attributable to common stockholders - basic and diluted	\$ 4,201	\$ (5,757)	\$ (7,105)	\$ (10,141)
Basic net income (loss) per common share	\$ 0.09	\$ (0.12)	\$ (0.14)	\$ (0.20)
Weighted average number of shares outstanding - basic	48,457,620	49,696,016	49,166,508	49,676,059
Diluted net income (loss) per common share	\$ 0.09	\$ (0.12)	\$ (0.14)	\$ (0.20)
Weighted average number of shares outstanding - diluted	49,033,824	49,696,016	49,166,508	49,676,059

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
General and administrative expenses	\$ 5,096	\$ 3,302	\$ 9,642	\$ 6,965
Non-cash stock compensation expense - G&A	423	461	755	453
Total general and administrative expenses	\$ 5,519	\$ 3,763	\$ 10,397	\$ 7,418

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

ACACIA RESEARCH CORPORATION
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF SERIES A REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY
(In thousands, except share data)

For the Three Months Ended June 30, 2020

	Series A Redeemable Convertible Preferred Stock		Common Stock		Treasury Stock	Additional Paid-in Capital	Accumulated Deficit	Noncontrolling Interests in Operating Subsidiaries	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Stock	Capital	Deficit		
	Balance at March 31, 2020	350,000	\$ 8,720	49,813,443	\$ 50	\$ (40,586)	\$ 651,441	\$ (450,947)	\$ 1,833
Net loss attributable to Acacia Research Corporation	-	-	-	-	-	-	6,148	-	6,148
Accretion of Series A Redeemable Convertible Preferred Stock to redemption value	-	680	-	-	-	(680)	-	-	(680)
Dividend on Series A Redeemable Convertible Preferred Stock	-	-	-	-	-	(389)	-	-	(389)
Stock options exercised	-	-	-	-	-	48	-	-	48
Compensation expense for share-based awards, net of forfeitures	-	-	600,333	-	-	423	-	-	423
Repurchase of common stock	-	-	(1,107,639)	(1)	(2,684)	-	-	-	(2,685)
Balance at June 30, 2020	350,000	\$ 9,400	49,306,137	\$ 49	\$ (43,270)	\$ 650,843	\$ (444,799)	\$ 1,833	\$ 164,656

For the Three Months Ended June 30, 2019

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

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

ACACIA RESEARCH CORPORATION
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF SERIES A REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS'
EQUITY
(In thousands, except share data)

	For the Six Months Ended June 30, 2020								
	Series A Redeemable Convertible Preferred Stock		Common Stock		Treasury	Additional Paid-in	Accumulated	Noncontrolling Interests in Operating	Total
	Shares	Amount	Shares	Amount	Stock	Capital	Deficit	Subsidiaries	Stockholders' Equity
Balance at December 31, 2019	350,000	\$ 8,089	50,370,987	\$ 50	\$ (39,272)	\$ 652,003	\$ (439,656)	\$ 1,833	\$ 174,958
Net loss attributable to Acacia Research Corporation			-	-	-	-	(5,143)	-	(5,143)
Accretion of Series A Redeemable Convertible Preferred Stock to redemption value		1,311	-	-	-	(1,311)	-	-	(1,311)
Dividend on Series A Redeemable Convertible Preferred Stock			-	-	-	(652)	-	-	(652)
Stock options exercised			-	-	-	48	-	-	48
Compensation expense for share-based awards, net of forfeitures			619,687	-	-	755	-	-	755
Repurchase of common stock			(1,684,537)	(1)	(3,998)	-	-	-	(3,999)
Balance at June 30, 2020	350,000	\$ 9,400	49,306,137	\$ 49	\$ (43,270)	\$ 650,843	\$ (444,799)	\$ 1,833	\$ 164,656

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

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)

	Six Months Ended June 30,	
	2020	2019
Cash flows from operating activities:		
Net loss including noncontrolling interests in subsidiaries	\$ (5,143)	\$ (10,155)
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)	(6,785)	(13,888)
Loss on sale of investment (Note 5)	2,762	7,232
Impairment of other investment	–	8,195
Depreciation and amortization	2,404	1,482
Amortization of debt discount and issuance costs	270	–
Loss on foreign currency exchange	4,890	–
Change in fair value of Series A redeemable convertible preferred stock embedded derivative	11,539	–
Change in fair value of Series A warrants	3,384	–
Change in fair value of Series B warrants	52,361	–
Non-cash stock compensation	755	453
Change in fair value of trading securities	2,592	(1,004)
Loss on sale of trading securities	7,009	–
Change in fair value of equity securities derivative and forward contract	(81,553)	–
Changes in assets and liabilities:		
Accounts receivable	(882)	17,576
Prepaid expenses and other assets	877	(1,595)
Accounts payable and accrued expenses	(1,588)	1,606
Royalties and contingent legal fees payable	(35)	(12,170)
Net cash used in operating activities	<u>(7,143)</u>	<u>(2,268)</u>
Cash flows from investing activities:		
Patent acquisition costs	(13,780)	(4,420)
Sale of investment at fair value (Note 5)	1,460	5,045
Purchases of trading securities	(31,317)	(75,154)
Maturities and sales of trading securities	299,227	11,396
Purchases of prepaid investment	(282,327)	–
Equity securities derivative and forward contract acquisition cost	(3,989)	–
Purchases of property and equipment	(148)	–
Net cash used in investing activities	<u>(30,874)</u>	<u>(63,133)</u>
Cash flows from financing activities:		
Repurchase of common stock	(3,998)	–
Issuance of Senior Secured Notes, net of lender fee	110,437	–
Senior Secured Notes issuance costs paid to other parties	(496)	–
Dividend on Series A Redeemable Convertible Preferred Stock	(653)	–
Issuance of Series B warrants	4,600	–
Proceeds from exercise of stock options	48	79
Net cash provided by financing activities	<u>109,938</u>	<u>79</u>
Increase (decrease) in cash and cash equivalents and restricted cash	71,921	(65,322)
Cash and cash equivalents and restricted cash, beginning	<u>92,359</u>	<u>128,809</u>
Cash and cash equivalents and restricted cash, ending	<u>\$ 164,280</u>	<u>\$ 63,487</u>
Supplemental schedule of noncash investing activities:		
Acquisition of prepaid investment securities	<u>\$ 183,587</u>	<u>\$ –</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, “we,” “us,” “our,” “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 was incorporated on January 25, 1993 under the laws of the State of California. In December 1999, Acacia changed its state of incorporation from California to Delaware.

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

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

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

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

During the six months ended June 30, 2020, Acacia obtained control of four new patent portfolios. During fiscal year 2019, Acacia obtained control of five 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, 2019, as reported by Acacia in its Annual Report on Form 10-K filed with the SEC on March 16, 2020, as well as in our other public filings with the SEC. The condensed consolidated interim financial statements of Acacia include all adjustments of a normal recurring nature which, in the opinion of management, are necessary for a fair statement of Acacia's consolidated financial position as of June 30, 2020, and results of its operations and its cash flows for the interim periods presented. The consolidated results of operations for the three and six months ended June 30, 2020 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 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, the valuation of the equity instruments, the valuation of Series A redeemable convertible preferred stock (the "Series A Redeemable Convertible Preferred Stock") embedded derivatives, Series A warrants (the "Series A Warrants"), Series B warrants (the "Series B Warrants"), equity securities derivative and forward contract, stock-based compensation expense, impairment of patent related intangible assets, 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 composed of the following for the periods presented:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2020	2019	2020	2019
	(In thousands)			
Paid-up Revenue Agreements	\$ 1,792	\$ 4,864	\$ 5,092	\$ 4,864
Recurring Revenue Agreements	326	596	841	3,983
Total Revenue	<u>\$ 2,118</u>	<u>\$ 5,460</u>	<u>\$ 5,933</u>	<u>\$ 8,847</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.

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.

Concentration of credit risks

Financial instruments that potentially subject Acacia to concentrations of credit risk are cash equivalents, trading securities and accounts receivable. Acacia places its cash equivalents and trading securities primarily in highly rated money market funds and investment grade marketable securities. Cash and cash equivalents are also invested in deposits with certain financial institutions and may, at times, exceed federally insured limits. Acacia has not experienced any significant losses on its deposits of cash and cash equivalents.

Three licensees accounted for 46%, 38% and 12% of revenues recognized during the three months ended June 30, 2020, and four licensees accounted for 35%, 34%, 17% and 10% of revenues recognized during the six months ended June 30, 2020. One licensee individually accounted for 89% of revenues recognized during the three months ended June 30, 2019, and two licensees accounted for 55% and 27% of revenues recognized during the six months ended June 30, 2019.

The Company does not have any material foreign operations. Based on the jurisdiction of the entity obligated to satisfy payment obligations pursuant to the applicable revenue arrangement, for the three and six months ended June 30, 2020, 49% and 21%, respectively, of revenues were attributable to licensees domiciled in foreign jurisdictions. For the three and six months ended June 30, 2019, 3% and 32%, respectively, of revenues were attributable to licensees domiciled in foreign jurisdictions. Three licensees individually represented approximately 70%, 22%, and 5% of accounts receivable at June 30, 2020. Two licensees individually represented approximately 70% and 17% of accounts receivable at December 31, 2019.

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 regarding 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 in an amount 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, trading securities 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.

Long Term Restricted Cash

Long-term restricted cash relates to the proceeds received from the issuance of Series A Redeemable Convertible Preferred Stock which are held in an escrow account. The amounts are to be released to the Company upon, among other things, (i) the consummation of a suitable investment or acquisition by the Company or (ii) the conversion of Series A Redeemable Convertible Preferred Stock into common stock.

Prepaid Investment

Prepaid investment relates to the cash transferred to an escrow account in connection with a Transaction Agreement with LF Equity Income Fund ("Seller"), pursuant to which the Company will purchase from Seller certain equity securities. Refer to Note 14 for additional information on the Transaction Agreement. The amounts are to be released to the Seller upon transfer of the specified equity securities at set prices at various future dates following various terms and conditions per the Transaction Agreement.

Equity Securities Derivative and Forward Contract

The equity security forward contract includes both private and public equity securities not yet transferred, as of June 30, 2020, under the Company's Transaction Agreement with Seller. Refer to Note 14 for additional information on the agreement. The public company equity security forward contracts are accounted for as derivatives and are carried at fair market value with changes in fair market value recorded in the condensed consolidated statements of operations in other income (expense). The private company equity security forward contracts do not meet the definition of a derivative as the underlying equity securities are not readily convertible to cash. Therefore, as the forward contracts do not have readily determinable fair value, these forward contracts are reported at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions involving securities similar to those underlying the forward contract. Changes in fair market value are reported in the condensed consolidated statements of operations in other income (expense).

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 the condensed consolidated statements of operations in other income (expense). Accrued interest is included in the trading securities balance on the condensed consolidated balance sheets.

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 the condensed consolidated statements of operations in other income (expense).

Trading securities for the periods presented were comprised of the following:

	<u>Cost</u>	<u>Gross Unrealized Gain</u>	<u>Gross Unrealized Loss</u>	<u>Fair Value</u>
	(In thousands)			
Security Type				
June 30, 2020:				
Trading securities - equity	22,539	1,914	(4,756)	19,697
	<u>\$ 22,539</u>	<u>\$ 1,914</u>	<u>\$ (4,756)</u>	<u>\$ 19,697</u>
December 31, 2019:				
Trading securities - debt	\$ 93,712	\$ 143	\$ (12)	\$ 93,843
Trading securities - equity	17,674	211	(745)	17,140
	<u>\$ 111,386</u>	<u>\$ 354</u>	<u>\$ (757)</u>	<u>\$ 110,983</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:

	Level 1	Level 2	Level 3
	(In thousands)		
Assets as of June 30, 2020:			
Trading securities - equity	\$ 19,697	\$ –	\$ –
Equity securities derivative	7,369	–	–
Investment at fair value - warrants (Note 5)	–	4,063	–
Total recurring fair value measurements as of June 30, 2020	<u>\$ 27,066</u>	<u>\$ 4,063</u>	<u>\$ –</u>
Assets as of December 31, 2019:			
Trading securities - debt	\$ –	\$ 93,843	\$ –
Trading securities - equity	17,140	–	–
Investment at fair value - warrants (Note 5)	–	757	–
Investment at fair value - common stock (Note 5)	743	–	–
Total recurring fair value measurements as of December 31, 2019	<u>\$ 17,883</u>	<u>\$ 94,600</u>	<u>\$ –</u>
Liabilities as of June 30, 2020:			
Series A warrants	\$ –	\$ 6,952	\$ –
Series B warrants	–	–	58,290
Embedded derivative liability	–	–	29,513
Total liabilities as of June 30, 2020	<u>\$ –</u>	<u>\$ 6,952</u>	<u>\$ 87,803</u>
Liabilities as of December 31, 2019:			
Series A warrants	\$ –	\$ 3,568	\$ –
Embedded derivative liability	–	–	17,974
Total liabilities as of December 31, 2019	<u>\$ –</u>	<u>\$ 3,568</u>	<u>\$ 17,974</u>

The following table sets forth a summary of the changes in the estimated fair value of the Company's Level 3 liabilities, which are measured at fair value as a on a recurring basis:

	Series A Preferred Stock Embedded Derivative Liability	Series B Warrants Liability
	(In thousands)	
Opening balance as of December 31, 2019	\$ 17,974	\$ —
Issuance of Series B warrants	—	4,600
Remeasurement to fair value	11,539	53,690
Balance as of June 30, 2020	<u>\$ 29,513</u>	<u>\$ 58,290</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). We elected the fair value method for our investment in Veritone. As of June 30, 2020, our investment in Veritone warrants totaled \$4.1 million.

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 investor 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. Forfeitures are accounted for as they occur.

Restricted stock units granted in September 2019 with market-based vesting conditions vest based upon the Company achieving specified stock price targets over a three-year period. The effect of a market condition is reflected in the estimate of the grant-date fair value of the options utilizing a Monte Carlo valuation technique. Compensation cost is recognized with a market-based vesting condition provided that the requisite service is rendered, regardless of when, if ever, the market condition is satisfied. Assumptions utilized in connection with the Monte Carlo valuation technique included: estimated risk-free interest rate of 1.38 percent; term of 3.00 years; expected volatility of 38 percent; and expected dividend yield of 0 percent. The risk-free interest rate was determined based on the yields available on U.S. Treasury zero-coupon issues. The expected stock price volatility was determined using historical volatility. The expected dividend yield was based on expectations regarding dividend payments.

Profits Interest Units ("Units") were accounted for in accordance with Accounting Standards Codification ("ASC") 718-10, "Compensation - Stock Compensation." The vesting conditions did not meet the definition of service, market or performance conditions, as defined in ASC 718. As such, the Units were classified as liability awards. Compensation expense was adjusted 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. 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. As of June 30, 2020, the Units totaled \$591,000, which was their fair value as of December 31, 2018 after termination of service.

Series A Warrants

The fair value of the Series A Warrants is estimated using a Black-Scholes option-pricing model. The fair value of the Series A Warrants as of June 30, 2020 was estimated based on the following assumptions: volatility of 27 percent, risk-free rate of 0.51 percent, term of 7.29 years and a dividend yield of 0 percent. Refer to Notes 10 and 11 for additional information.

Series B Warrants

The fair value of the Series B Warrants is estimated using Monte Carlo valuation technique. The fair value of the Series B Warrants as of June 30, 2020 was estimated based on event probabilities of future exercise scenarios and the following weighted-average assumptions: (1) volatility of 47 percent, risk-free rate of 0.51 percent, term of 2.15 years, dividend yield of 0 percent, and a discount for lack of marketability of 10 percent, and (2) volatility of 27 percent, risk-free rate of 0.51 percent, term of 7.38 years and a dividend yield of 0 percent, and a discount for lack of marketability of 10 percent. Refer to Notes 10 and 12 for additional information.

Embedded derivatives

Embedded derivatives that are required to be bifurcated from their host contract are valued separately from host instrument. A binomial lattice framework is used to estimate the fair value of the embedded derivative in the Series A Redeemable Convertible Preferred Stock. The binomial model utilizes the Tsiveriotis and Fernandes implementation in which a convertible instrument is split into two separate components: a cash-only component which is subject to the selected risk-adjusted discount rate and an equity component which is subject only to the risk-free rate. The model considers the (i) implied volatility of the value of our common stock, (ii) appropriate risk-free interest rate, (iii) credit spread, (iv) dividend yield, (v) dividend accrual (and a step-up in rates), and (vi) event probabilities of the various conversion and redemption scenarios.

The implied volatility of the Company's common stock is estimated based on a haircut applied to the historical volatility. A volatility haircut is a concept used to describe a commonly observed occurrence in which the volatility implied by market prices involving options, warrants, and convertible debt is lower than historical actual realized volatility. The assumed base case term used in the valuation model is the period remaining until November 15, 2027, the maturity date. The risk-free interest rate is based on the yield on the U.S. Treasury with a remaining term equal to the expected term of the conversion and early redemption options. The significant assumptions utilized in the Company's valuation of the embedded derivative at June 30, 2020 are as follows: volatility of 27 percent, risk-free rate of 0.51 percent, a credit spread of 25 percent and a dividend yield of 0 percent. The fair value measurement of the embedded derivative is sensitive to these assumptions and changes in these assumptions could result in a materially different fair value measurement. Refer to Note 10 for additional information.

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 21% for the three and six months ended June 30, 2020, respectively and 0% and (3%) for the three and six months ended June 30, 2019, respectively. Tax benefit (expense) for the periods presented primarily reflects the impact of state taxes and foreign taxes withholding or refund incurred on revenue agreements executed with third-party licensees domiciled in foreign jurisdictions. The Company has recorded full valuation allowance against our net deferred tax assets as of June 30, 2020 and 2019. These assets primarily consist of foreign tax credits, capital loss carryforwards and net operating loss carryforwards.

3. INCOME (LOSS) PER SHARE

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
(In thousands, except share and per share information)				
Numerator:				
Net income (loss) attributable to Acacia Research Corporation	\$ 6,148	\$ (5,757)	\$ (5,143)	\$ (10,141)
Dividend on Series A redeemable convertible preferred stock	(388)	–	(651)	–
Accretion of Series A redeemable convertible preferred stock	(680)	–	(1,311)	–
Undistributed earnings allocated to participating securities	(879)	–	–	–
Net income (loss) attributable to common stockholders - basic and diluted	<u>4,201</u>	<u>(5,757)</u>	<u>(7,105)</u>	<u>(10,141)</u>
Denominator:				
Weighted-average shares used in computing net income (loss) per share attributable to common stockholders - basic	48,457,620	49,696,016	49,166,508	49,676,059
Potentially dilutive common shares:				
Restricted stock units	576,204	–	–	–
Weighted-average shares used in computing net income (loss) per share attributable to common stockholders - diluted	<u>49,033,824</u>	<u>49,696,016</u>	<u>49,166,508</u>	<u>49,676,059</u>
Basic net income (loss) per common share	<u>\$ 0.09</u>	<u>\$ (0.12)</u>	<u>\$ (0.14)</u>	<u>\$ (0.20)</u>
Diluted net income (loss) per common share	<u>\$ 0.09</u>	<u>\$ (0.12)</u>	<u>\$ (0.14)</u>	<u>\$ (0.20)</u>
Anti-dilutive potential common shares excluded from the computation of diluted net income (loss) per common share:				
Equity-based incentive awards	476,583	1,766,191	2,321,016	1,766,191
Series A warrants	5,000,000	–	5,000,000	–
Series B warrants	100,000,000	–	100,000,000	–
Total	<u>105,476,583</u>	<u>1,766,191</u>	<u>107,321,016</u>	<u>1,766,191</u>

4. PATENTS

Acacia's only identifiable intangible assets at June 30, 2020 and December 31, 2019 are patents and patent rights. Patent-related accumulated amortization totaled \$325,122,000 and \$322,774,000 as of June 30, 2020 and December 31, 2019, respectively. Acacia's patents have remaining estimated economic useful lives ranging from one to fifty-eight months. The weighted-average remaining estimated economic useful life of Acacia's patents is approximately four years.

The following table presents the scheduled annual aggregate amortization expense as of June 30, 2020:

For the years ending December 31,

(In thousands)	
Remainder of 2020	\$ 2,332
2021	4,451
2022	4,451
2023	4,376
2024	3,005
Thereafter	630
	<u>\$ 19,245</u>

5. INVESTMENTS

Investment at Fair Value

During 2016 and 2017, Acacia made certain investments in Veritone, Inc. ("Veritone"). As a result of these transactions, Acacia received an aggregate total of 4,119,521 shares of Veritone common stock and warrants to purchase a total of 1,120,432 shares of Veritone common stock at an exercise price of \$13.61 per share expiring between 2020 and 2027. During the year ended December 31, 2018, Acacia sold 2,700,000 shares Veritone common stock and recorded a realized loss of \$19.1 million. During the year ended December 31, 2019, Acacia sold 1,121,071 shares Veritone common stock and recorded a realized loss of \$9.2 million. During the three months ended March 31, 2020, Acacia sold all remaining 298,450 shares Veritone common stock and recorded a realized loss of \$3.3 million.

During the three months ended June 30, 2020, Acacia exercised 154,312 warrants of the total 1,120,432 Veritone common stock purchase warrants at a price of \$13.61 per warrant, and then sold the 154,312 shares of Veritone stock received at \$17.23 per share, and recorded a realized gain of \$ 554,000. At June 30, 2020, the fair value of the 966,120 remaining warrants held by Acacia totaled \$ 4,063,000.

Changes in the fair value of Acacia's investment in Veritone are recorded as unrealized gains or losses in the consolidated statements of operations. For the three and six months ended June 30, 2020 and 2019, the accompanying condensed consolidated statements of operations reflected the following:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2020	2019	2020	2019
	(In thousands)			
Change in fair value of investment, warrants	\$ 2,677	\$ 3,091	\$ 3,306	\$ 2,394
Change in fair value of investment, common stock	–	3,889	3,479	11,494
Gain on sale of investment, warrants	554	–	554	–
Loss on sale of investment, common stock	–	(1,642)	(3,316)	(7,232)
Net realized and unrealized gain (loss) on investment at fair value	<u>\$ 3,231</u>	<u>\$ 5,338</u>	<u>\$ 4,023</u>	<u>\$ 6,656</u>

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, provides for annual rent increases, and does not provide us the right to early terminate or extend our lease terms.

The Company subleased a facility under another operating lease agreement (the "Old Lease") that we ceased using in December 2018, and the sublease went through the remaining term of the Old Lease, which ended on January 31, 2020.

On January 7, 2020, we entered into a building lease agreement (the "New York Office Lease") with Sage Realty Corporation (the "New York Office Landlord"). Pursuant to the New York Office Lease, we have leased approximately 4,000 square feet of office space in New York, New York. The New York Office Lease commenced on February 1, 2020. The term of the New York Office Lease is 24 months from the commencement date, provides for annual rent increases, and does not provide us the right to early terminate or extend our lease terms.

Operating lease costs, net of sublease income, were \$ 164,000 and \$ 114,000 for the three months ended June 30, 2020 and 2019, respectively. Operating lease costs, net of sublease income, were \$285,000 and \$205,000 for the six months ended June 30, 2020 and 2019, respectively.

The table below presents aggregate future minimum payments due under the New Lease and the New York Office Lease discussed above, reconciled to lease liabilities included in the consolidated balance sheet as of June 30, 2020:

	Operating Leases	
	(In thousands)	
2020	\$	287
2021		589
2022		370
2023		364
2024		218
Total minimum payments	\$	1,828
Less: short-term lease liabilities		(579)
Long-term lease liabilities	\$	1,249

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 September 6, 2019, Slingshot Technologies, LLC ("Slingshot") filed suit in Delaware Chancery Court against the Company, Acacia Research Group, LLC, and Monarch Networking Solutions LLC (collectively, the "Acacia Entities"), Acacia board member Katharine Wolanyk, and Transpacific IP Group, Ltd. ("Transpacific"). Slingshot alleges that the Acacia Entities misappropriated its confidential and proprietary information, purportedly furnished to the Acacia Entities by Ms. Wolanyk, in acquiring a patent portfolio from Transpacific after Slingshot's exclusive option to purchase the same patent portfolio from Transpacific had already expired. Slingshot seeks monetary damages, as well as equitable and injunctive relief related to its alleged right to own the portfolio. The Acacia Entities maintain that Slingshot's allegations are baseless, that Ms. Wolanyk had no involvement in the acquisition, that the Acacia Entities neither had access to nor used Slingshot's information in acquiring the portfolio, that the Acacia Entities acquired the portfolio as a result of the independent efforts of its IP licensing group, and that Slingshot suffered no damages given its exclusive option to purchase the portfolio had already ended and it has proven itself incapable of closing on the portfolio purchase.

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 six months ended June 30, 2020, operating expenses included a net income for settlement offset by contingency accruals totaling \$ 308,000, net of prior accruals. During the six months ended June 30, 2019, operating expenses included expenses for settlement and contingency accruals totaling \$650,000. At June 30, 2020, our contingency accruals totaled \$1.4 million.

7. STOCKHOLDERS' EQUITY

Repurchases of Common Stock

On August 5, 2019, Acacia's Board of Directors approved a stock repurchase program, which authorized the purchase of up to \$ 10.0 million of the Company's common stock through open market purchases, through block trades, through 10b5-1 plans, or by means of private purchases, from time to time, through July 31, 2020. 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
March 20, 2020 - March 31, 2020	576,898	\$ 2.28	\$ 8,686,000	July 31, 2020
April 1, 2020 - April 23, 2020	1,107,639	\$ 2.42	\$ 6,001,000	July 31, 2020
Totals for 2020	<u>1,684,537</u>	\$ 2.37		

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.

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"). Our stockholders ratified the adoption of the Plan in July 2019. 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 - Not Yet Adopted

In December 2019, the Financial Accounting Standards Board ("FASB") issued ASU No. 2019-12 Income Taxes (Topic 740) — Simplifying the Accounting for Income Taxes, to remove certain exceptions and improve consistency of application, including, among other things, requiring that an entity reflect the effect of an enacted change in tax laws or rates in the annual effective tax rate computation in the interim period that includes the enactment date. The amendments in this update will be effective for the Company beginning with fiscal year 2021, with early adoption permitted. Most amendments within the standard are required to be applied on a prospective basis, while certain amendments must be applied on a retrospective or modified retrospective basis. Management is currently evaluating the impact that the amendments in this update will have on the Company's consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, to replace the incurred loss methodology with an expected credit loss model that requires consideration of a broader range of information to estimate credit losses over the lifetime of the asset, including current conditions and reasonable and supportable forecasts in addition to historical loss information, to determine expected credit losses. Pooling of assets with similar risk characteristics and the use of a loss model are also required. Also, in April 2019, the FASB issued ASU No. 2019-04, Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments, to clarify the inclusion of recoveries of trade receivables previously written off when estimating an allowance for credit losses. The amendments in this update will be effective for the Company in fiscal year 2023, with early adoption permitted. Management is currently evaluating the impact that the amendments in this update will have on the Company's consolidated financial statements.

9. FAIR VALUE DISCLOSURES

Acacia holds the following types of financial instruments at June 30, 2020 and December 31, 2019.

Trading securities - debt. Debt securities include 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 include 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 value of these securities are within Level 1 of the valuation hierarchy.

Equity securities derivative. Public company equity securities derivative are recorded at fair value based on the quoted market price of the underlying shares on the valuation date and settlement expectations. The fair value of these equity securities derivative 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 (Level 1).

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

Series A Warrants. Series A Warrants are recorded at fair value, using Black-Scholes option-pricing model (Level 2).

Series B Warrants. Series B Warrants are recorded at fair value, using Monte Carlo valuation technique (Level 3).

Embedded derivative liability. Embedded derivatives that are required to be bifurcated from their host contract are evaluated and valued separately from the host instrument. A binomial lattice framework is used to estimate the fair value of the embedded derivative in the Series A Redeemable Convertible Preferred Stock issued by the Company in 2019 (Level 3).

10. SERIES A REDEEMABLE CONVERTIBLE PREFERRED STOCK

On November 18, 2019, the Company entered into a Securities Purchase Agreement (the "Securities Purchase Agreement") with Starboard Value LP ("Starboard") pursuant to which the Company issued (i) 350,000 shares of Series A Redeemable Convertible Preferred Stock with a par value of \$0.001 per share and a stated value of \$100 per share, and (ii) Series A Warrants to purchase up to 5,000,000 shares of the Company's common stock to Starboard. The Securities Purchase Agreement also established the terms of certain senior secured notes and Series B Warrants that may be issued to Starboard on a subsequent date. Refer to Notes 11 and 12 for additional information regarding the issuance of the Series A and Series B Warrants.

The Series A Redeemable Convertible Preferred Stock can be converted into a number of shares of common stock equal to (i) the stated value thereof plus accrued and unpaid dividends, divided by (ii) the conversion price of \$3.65 (subject to certain anti-dilution adjustments). Holders may elect to convert the Series A Redeemable Convertible Preferred Stock into common stock at any time. The Company may elect to convert the Series A Redeemable Convertible Preferred Stock into shares of Common Stock any time on or after November 15, 2025, provided that the closing price of the Company's common stock equals or exceeds 190% of the conversion price for 30 consecutive trading days and assuming certain other conditions of the common stock have been met.

Holders have the option to redeem all or a portion of the Series A Redeemable Convertible Preferred Stock during the periods of May 15, 2021 through August 15, 2021 and May 15, 2022 through August 15, 2022, provided that the Company has not issued at least \$50.0 million aggregate principal of senior secured notes to Starboard pursuant to the Securities Purchase Agreement. Holders also have the option to redeem all or a portion of the Series A Redeemable Convertible Preferred Stock during the period of November 15, 2024 through February 15, 2025. Additionally, holders have the option to redeem all or a portion of the Series A Redeemable Convertible Preferred Stock upon the occurrence of (i) a change of control or (ii) various other triggering events, such as the suspension from trading or delisting of the Company's common stock. If the Series A Redeemable Convertible Preferred Stock is redeemed at the option of the holders, the redemption price may include a make-whole amount or a stated premium, depending on the redemption scenario.

The Company may redeem all, and not less than all, of the Series A Redeemable Convertible Preferred Stock (i) upon a change of control or (ii) during the period of May 15, 2022 through August 15, 2022, provided that the Company has not issued at least \$50.0 million aggregate principal of the senior secured notes, and assuming certain conditions of the common stock have been met. If the Series A Redeemable Convertible Preferred Stock is redeemed at the option of the Company, the redemption price would include a make-whole amount or a 15% premium depending on the circumstances.

If any Series A Redeemable Convertible Preferred Stock remains outstanding on November 15, 2027, the Company shall redeem such Series A Redeemable Convertible Preferred Stock in cash.

In all redemption scenarios, the redemption price for the Series A Redeemable Convertible Preferred Stock includes the stated value plus accrued and unpaid dividends. In addition, depending on the redemption scenario, the redemption price may also include a make-whole amount or stated premium as described above.

When the Company issues senior secured notes, the Holder may exchange the Series A Redeemable Convertible Preferred Stock for (i) senior secured notes and (ii) Series B Warrants to purchase common stock.

The Series A Redeemable Convertible Preferred Stock accrues cumulative dividends quarterly at annual rate of 3.0% on the stated value. Upon consummation of an approved investment (an investment to be identified and approved by each of the Company and Starboard), the dividend rate will increase to 8.0% on the stated value. Upon certain triggering events, the dividend rate will increase to 7.0% if the triggering event occurs before an approved investment or 10.0% on the stated value if the triggering event occurs after an approved investment. The Series A Redeemable Convertible Preferred Stock also participates on an as-converted basis in any regular or special dividends paid to common stockholders. There are no accrued and unpaid dividends as of June 30, 2020.

Holders of the Series A Redeemable Convertible Preferred Stock have the right to vote with common stockholders on an as-converted basis on all matters. Holders of Series A Redeemable Convertible Preferred Stock will also be entitled to a separate class vote with respect to amendments to the Company's organizational documents that generally have an adverse effect on the Series A Redeemable Convertible Preferred Stock.

Upon liquidation of the Company, holders of Series A Redeemable Convertible Preferred Stock have a liquidation preference over holders of our common stock and will be entitled to receive, prior to any distribution to holders of our common stock, an amount equal to the greater of (i) the stated value plus accrued and unpaid dividends or (ii) the amount that would have been received if the Series A Redeemable Convertible Preferred Stock had been converted into common stock immediately prior to the liquidation event at the then effective conversion price.

The Company determined that certain features of the Series A Redeemable Convertible Preferred Stock should be bifurcated and accounted for as a derivative. Each of these features are bundled together as a single, compound embedded derivative.

Total proceeds received and transaction costs incurred from the issuance of the Series A Redeemable Convertible Preferred Stock amounted to \$35 million and \$1.2 million, respectively. Proceeds received were allocated based on the fair value of the instrument without the Series A Warrants and of the Series A Warrants themselves at the time of issuance. The proceeds allocated to the Series A Redeemable Convertible Preferred Stock were then further allocated between the host preferred stock instrument and the embedded derivative, with the embedded derivative recorded at fair value and the Series A Redeemable Convertible Preferred Stock recorded at the residual amount. The portion of the proceeds allocated to the Series A Warrants, embedded derivative, and Series A Redeemable Convertible Preferred Stock was \$4.8 million, \$21.2 million, and \$8.9 million, respectively. Transaction costs were also allocated between the Series A Redeemable Convertible Preferred Stock and the Series A Warrants on the same basis as the proceeds. The transaction costs allocated to the Series A Redeemable Convertible Preferred Stock were treated as a discount to the Series A Redeemable Convertible Preferred Stock. The transaction costs allocated to the Series A Warrants were expensed as incurred.

The Company classifies the Series A Redeemable Convertible Preferred Stock as mezzanine equity as the instrument will become redeemable at the option of the holder in various scenarios or otherwise on November 15, 2027. As it is probable that the Series A Redeemable Convertible Preferred Stock will become redeemable, the Company accretes the instrument to its redemption value using the effective interest method and recognizes any changes against additional paid in capital in the absence of retained earnings. Accretion was \$0.7 million and \$1.3 million, respectively, for the three and six months ended June 30, 2020.

In connection with the issuance of the Series A Redeemable Convertible Preferred Stock, the Company executed a Registration Rights Agreement and a Governance Agreement with Starboard. Under the Registration Rights Agreement, the Company agreed to provide certain registration rights with respect to the Series A Redeemable Convertible Preferred Stock and shares of Common Stock issued upon conversion. In accordance with the Governance Agreement, the Company agreed to (i) increase the size of the Board of Directors from six to seven members, (ii) appoint a director of the Company, (iii) grant Starboard the right to recommend two additional directors for appointment to the board, (iv) form a Strategic Committee of the Board tasked with sourcing and performing due diligence on potential acquisition targets, (v) appoint certain directors to the Strategic Committee, and (vi) appoint a director to the Nominating and Corporate Governance Committee.

The following features of the Series A Redeemable Convertible Preferred Stock are required to be bifurcated from the host preferred stock and accounted for separately as an embedded derivative: (i) the right of the holders to redeem the shares (put option), (ii) the right of the holders to receive common stock upon conversion of the shares (conversion option), (iii) the right of the Company to redeem the shares (call option), and (iv) the change in dividend rate upon consummation of an approved investment or a triggering event (contingent dividend rate feature).

These features are required to be accounted for separately from the Series A Redeemable Convertible Preferred Stock because the features were determined to be not clearly and closely related to the debt-like host and also did not meet any other scope exceptions for derivative accounting. Therefore, these features are bundled together and are accounted for as a single, compound embedded derivative liability.

Accordingly, we have recorded an embedded derivative liability representing the combined fair value of each of these features. The embedded derivative liability is adjusted to reflect fair value at each period end with changes in fair value recorded in the "Change in fair value of redeemable preferred stock embedded derivative" financial statement line item of the accompanying condensed consolidated statements of operations. As of June 30, 2020, the fair value of the Series A embedded derivative was \$29.5 million.

11. SERIES A WARRANTS

On November 18, 2019, in connection with the issuance of the Series A Redeemable Convertible Preferred Stock, the Company issued detachable Series A Warrants to acquire up to 5,000,000 shares of common stock at a price of \$3.65 per share (subject to certain antidilution adjustments) at any time during a period of eight years beginning on the instrument's issuance date of the Series A Warrants. As of June 30, 2020, the Series A Warrants have not been exercised.

The Series A Warrants will be recognized at fair value at each reporting period until exercised, with changes in fair value recognized in the condensed consolidated statements of operations in other income (expense) in the accompanying condensed consolidated statements of operations. As of December 31, 2019, the fair value of the Series A Warrants was \$3.6 million. As of June 30, 2020, the fair value of the Series A Warrants was \$ 7.0 million.

The Series A Warrants are classified as a liability in accordance with ASC 480, Distinguishing Liabilities from Equity, as the agreement provides for net cash settlement upon a change in control, which is outside the control of the Company.

12. SERIES B WARRANTS

On February 25, 2020, pursuant to the terms of the Securities Purchase Agreement with Starboard, the Company issued Series B Warrants to purchase up to 100 million shares of the Company's common stock at an exercise price (subject to certain price-based anti-dilution adjustments) of either (i) \$ 5.25 per share, if exercising by cash payment, within 30 months from the issuance date (i.e., August 25, 2022); or (ii) \$3.65 per share, if exercising by cancellation of a portion of senior secured notes. The Company issued the Series B Warrants for an aggregate purchase price of \$4.6 million. The Series B Warrants expire on November 15, 2027.

In connection with the issuance of the Senior Secured Notes on June 4, 2020, the terms of certain of the Series B Warrants were amended to permit the payment of the lower exercise price of \$3.65 through the payment of cash, rather than only through the cancellation of Notes outstanding, at any time until the expiration date of November 15, 2027. Only 31,506,849 of the Series B Warrants are subject to this adjustment with the remaining balance of 68,493,151 Series B Warrants continuing under their original terms. Refer to Note 13 for additional information on the modifications to Series A Redeemable Convertible Preferred Stock and Series B Warrants.

As of June 30, 2020, the Series B Warrants have not been exercised. The Series B Warrants will be recognized at fair value at each reporting period until exercised, with changes in fair value recognized in the condensed consolidated statements of operations in other income (expense). As of June 30, 2020, the fair value of the Series B Warrants was \$58.3 million.

The Series B Warrants are classified as a liability in accordance with ASC 480, Distinguishing Liabilities from Equity, as the agreement provides for net cash settlement upon a change in control, which is outside the control of the Company.

13. SENIOR SECURED NOTES

Pursuant to the Securities Purchase Agreement dated November 18, 2019 with Starboard, on June 4, 2020, the Company issued \$ 115 million in Senior Secured Notes (the "Notes") to Starboard. Also on June 4, 2020, in connection with the issuance of the Notes, the Company entered into a Supplemental Agreement with Starboard (the "Supplemental Agreement"), pursuant to which the Company agreed to redeem \$80 million aggregate principal amount of the Notes by September 30, 2020, and \$35 million aggregate principal amount of the Notes by December 31, 2020, resulting in the total principal outstanding being paid by December 31, 2020. Per the Supplemental Agreement, interest is payable semiannually at a rate of 6% per annum, and in an event of default, the interest rate is increased to 10% per annum. The Notes include certain financial and non-financial covenants. Additionally, all or any portion of the principal amount outstanding under the Notes may, at the election of Starboard, be surrendered to the Company for cancellation in payment of the exercise price upon the exercise of Series B Warrants.

On June 30, 2020, the Company entered into an Exchange Agreement (the "Exchange Agreement") with Merton Acquisition HoldCo LLC, a Delaware limited liability company and wholly-owned subsidiary of the Company ("Merton") and Starboard, on behalf of itself and on behalf of certain funds and accounts under its management, including the holders of the Notes. Pursuant to the Exchange Agreement, the holders of the Notes exchanged the entire outstanding principal amount for new senior notes (the "New Notes") issued by Merton having an aggregate outstanding original principal amount of \$115 million.

The New Notes bear interest at a rate of 6.00% per annum and will mature December 31, 2020. The New Notes are fully guaranteed by the Company and are secured by an all-assets pledge of the Company and Merton and non-recourse equity pledges of each of the Company's material subsidiaries. Pursuant to the Exchange Agreement, the New Notes (i) are deemed to be "Notes" for purposes of the Securities Purchase Agreement, (ii) are deemed to be "June 2020 Approved Investment Notes" for purposes of the Supplemental Agreement, and therefore the Company has agreed to redeem \$80 million principal amount of the New Notes by September 30, 2020 and (iii) are deemed to be "Notes" for the purposes of the Series B Warrants, and therefore may be tendered pursuant to a Note Cancellation under the Series B Warrants on the terms set forth in the Series B Warrants and the New Notes. Delivery of notes in the form of the New Notes will satisfy the delivery of Exchange Notes pursuant to Section 16(i) of the Certificate of Designations of the Company's Series A Convertible Preferred Stock, par value \$0.001 per share. The New Notes will not be deemed to be "Notes" for the purposes of the Registration Rights Agreement, dated as of November 18, 2019, by and between the Company, Starboard and the Buyers.

Because the New Notes will be settled within twelve months pursuant to their terms, they are classified as current liabilities on the balance sheet. The Company capitalized \$4.6 million in lender fees and \$ 0.5 million in other issuance costs associated with the issuance of the Notes. The \$4.6 million of lender fees are recognized as long term deferred debt issuance cost and will be amortized to interest expense until November 15, 2027, the maturity date of Series A Redeemable Convertible Preferred Stock. The \$0.5 million issuance costs are recognized as a discount on the Notes and will be amortized to interest expense over the contractual life of the Notes. There are no accrued and unpaid interest on the New Note as of June 30, 2020.

Modifications to Series A Redeemable Convertible Preferred Stock and Series B Warrants

The June 4, 2020 Supplemental Agreement also provided for (i) a waiver of increased dividends under the original terms of the Series A Preferred Stock that would have otherwise accrued due to the Company's use of the \$35 million proceeds received from Starboard upon the issuance of the Series A Redeemable Convertible Preferred Stock in November 2019, (ii) the replacement of original optional redemption rights for the Series A Redeemable Convertible Preferred Stock provided to both the Company and Starboard that otherwise would have been nullified through the issuance of the Notes, and (iii) an amendment to the terms of the previously issued Series B Warrants to permit the payment of the lower exercise price of \$3.65 through the payment of cash, rather than only through the cancellation of Notes outstanding, at any time until the expiration of the Series B Warrants on November 15, 2027. Only 31,506,849 of the Series B Warrants are subject to this adjustment with the remaining balance of 68,493,151 Series B Warrants continuing under their original terms.

We analyzed the amendments to the Series A Redeemable Convertible Preferred Stock and determined that the amendments were not significant. Therefore, the amendments are accounted for as a modification on a prospective basis.

The incremental fair value of the Series B Warrants associated with their modification in connection with the issuance of the Notes is \$ 1.3 million and is recognized as a discount on the Notes and will be amortized to interest expense over the contractual life of the Notes.

14. LF EQUITY INCOME FUND PORTFOLIO INVESTMENT

On April 3, 2020, the Company entered into an Option Agreement with Seller, which included general terms through which the Company was provided the option to purchase life sciences equity securities in a portfolio of public and private companies ("Portfolio Companies") for an aggregate purchase price of £223.9 million, approximately \$277.5 million at the exchange rate on April 3, 2020. The option term was set to expire on May 1, 2020, but could be extended by the Company until May 15, 2020 upon demonstrating certain terms and conditions had been met. By mutual agreement of the parties, the Company further extended the option agreement from May 15, 2020 until May 22, 2020, at which time, the Company exercised its option to purchase the portfolio, pursuant to the terms of the option contract.

On June 4, 2020, the Company executed the Transaction Agreement between Link Fund Solutions Limited, Seller, and the Company. Pursuant to the Transaction Agreement, the Company will purchase from Seller and the Seller will transfer to the Company the specified equity securities of all Portfolio Companies at set prices at various future dates. The transfer dates will vary among the Portfolio Companies as the Transaction Agreement gives the Company the exclusive right to determine when to call for transfer of each security, and because each Portfolio Company (or its existing equity holders) may be required to approve the transfer due to rights of first refusals and other company-specific terms and conditions. Thus, the execution of the Transaction Agreement resulted in forward contracts for the Company to purchase equity securities in each public and private company at a specified price on a future date.

In accordance with the Transaction Agreement, the Company transferred the total purchase price of £223.9 million into an escrow account. As each of the equity securities in the Portfolio are transferred to the Company, the associated funds will be released from the escrow account to the Seller based on the consideration amount assigned to the equity securities in the Transaction Agreement.

For accounting purposes, the total purchase price of the portfolio was allocated to the individual equity securities based on their individual fair values as of April 3, 2020, in order to establish an appropriate cost basis for each of the acquired securities. The fair values of the public company securities were based on their quoted market price. The fair values of the private company securities were estimated based on recent financing transactions and secondary market transactions and factoring in a discount for the illiquidity of these securities.

Changes in the fair value of Acacia's investment in the Portfolio Companies are recorded as unrealized gains or losses in the condensed consolidated statements of operations. For the three and six months ended June 30, 2020 and 2019, the accompanying condensed consolidated statements of operations reflected the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
	(In thousands)			
Change in fair value of trading security - LF Fund public securities	\$ (1,069)	\$ -	\$ (1,069)	\$ -
Change in fair value of equity securities derivative	6,891	-	6,891	-
Change in fair value of equity securities forward contract	74,662	-	74,662	-
Loss on sale of trading security - LF Fund public securities	(6,110)	-	(6,110)	-
Net realized and unrealized gain on investment in LF Fund securities	<u>\$ 74,374</u>	<u>\$ -</u>	<u>\$ 74,374</u>	<u>\$ -</u>

15. 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 June 30, 2020, 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 1,580 license agreements executed to date, across nearly 200 patent portfolio licensing and enforcement programs. Currently, on a consolidated basis, our 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 variety of industries. To date, we have generated gross licensing revenue of approximately \$1.6 billion, and have returned more than \$791 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*

As of the date of this report, our operating subsidiaries have one pending patent infringement case with a scheduled trial date in the next twelve months. 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 and the immediately preceding periods 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, in our experience, 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. Please refer to Item 1A. "Risk Factors" for additional information regarding trials, patent litigation and related risks.

- *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;
- 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 six months ended June 30, 2020, we acquired four new patent portfolios consisting of (i) flash memory technology, (ii) voice activation and control technology, (iii) wireless networks, and (iv) internet search, advertising and cloud computing technology. The patents and patent rights acquired in 2020 have estimated economic useful lives of approximately five years. In fiscal year 2019 we acquired five patent portfolios.

Starboard Securities

In 2019, as part of its strategy to grow, the Company began evaluating a wide range of strategic opportunities that culminated in the strategic investment in the Company by certain funds and accounts affiliated with, or managed by, Starboard Value LP, or Starboard. On November 18, 2019, the Company entered into a Securities Purchase Agreement with Starboard, or the Securities Purchase Agreement, pursuant to which Starboard purchased (i) 350,000 shares of the Company's newly designated Series A Convertible Preferred Stock, or Series A Preferred Stock, at an aggregate purchase price of \$35,000,000, and warrants to purchase up to 5,000,000 shares of the Company's common stock, or Series A Warrants. The Securities Purchase Agreements also established the terms of certain senior secured notes and additional warrants, or the Series B Warrants, which may be issued to Starboard in the future. Refer to Notes 2, 10, 11 and 12 to the consolidated financial statements elsewhere herein for more information related to the Series A Preferred Stock, Series A Warrants and Series B Warrants. In connection with Starboard's investment, Starboard was granted certain corporate governance rights, including the right to appoint Jonathan Sagal, Managing Director of Starboard, as a director of the Company and recommend two additional directors for appointment to our Board of Directors. The investment by Starboard is referred to herein as the "Starboard Investment," and the Series A Preferred Stock, Series A Warrants and Series B Warrants are referred to herein as, collectively, the "Starboard Securities."

On February 14, 2020, the Company's stockholders approved, for purposes of Nasdaq Rules 5635(b) and 5635(d), as applicable, (i) the voting of the Series A Preferred Stock on an as-converted basis and (ii) the issuance of the maximum number of shares of common stock issuable in connection with the potential future (A) conversion of the Series A Preferred Stock and (B) exercise of the Series A and Series B Warrants, in each case, without giving effect to the exchange cap set forth in the Series A Preferred Stock Certificate of Designations and in the Series A Warrants, issued pursuant to the Securities Purchase Agreement dated November 18, 2019. Refer to Notes 10 and 11 to the consolidated financial statements elsewhere herein for additional information. The Company's stockholders also approved an amendment to the Company's Amended and Restated Certificate of Incorporation to increase the total number of authorized shares of common stock by 200,000,000 shares, from 100,000,000 shares to 300,000,000 shares.

On February 25, 2020, pursuant to the terms of the Securities Purchase Agreement with Starboard, the Company issued Series B Warrants to purchase up to 100 million shares of the Company's common stock at an exercise price of either (i) \$5.25 per share, if exercising by cash payment, or (ii) \$3.65 per share, if exercising by cancellation of a portion of senior secured notes. The Company issued the Series B Warrants for an aggregate purchase price of \$4.6 million. Refer to Note 12 for additional information.

Pursuant to the terms of the Securities Purchase Agreement with Starboard, On June 4, 2020, the Company issued \$115 million in Senior Secured Notes, or the Notes, to Starboard. Also on June 4, 2020, in connection with the issuance of the Notes, the Company entered into a Supplemental Agreement with Starboard, or the Supplemental Agreement, through which, the Company agreed to redeem \$80 million aggregate principal amount of the Notes by September 30, 2020, and \$35 million aggregate principal amount of the Notes by December 31, 2020, resulting in the total principal outstanding being paid by December 31, 2020. Per the Supplemental Agreement, interest is payable semiannually at a rate of 6% per annum, and in an event of default, the interest rate is increased to 10% per annum. The Notes outlined certain financial and non-financial covenants. Additionally, all or any portion of the principal amount outstanding under the Notes may, at the election of Starboard, be surrendered to the Company for cancellation in payment of the exercise price upon the exercise of the Series B Warrants.

On June 30, 2020, the Company entered into an Exchange Agreement, or the Exchange Agreement, with Merton Acquisition HoldCo LLC, a Delaware limited liability company and wholly-owned subsidiary of the Company, or Merton and Starboard, on behalf of itself and on behalf of certain funds and accounts under its management, including the holders of the Notes. Pursuant to the Exchange Agreement, the holders of the Notes exchanged the entire outstanding principal amount for new senior notes, or the Notes, issued by Merton having an aggregate outstanding original principal amount of \$115 million. The New Notes bear interest at a rate of 6.00% per annum and will mature December 31, 2020. The New Notes are fully guaranteed by the Company and are secured by an all-assets pledge of the Company and Merton and non-recourse equity pledges of each of the Company's material subsidiaries. Pursuant to the Exchange Agreement, the New Notes (i) are deemed to be "Notes" for purposes of the Securities Purchase Agreement, (ii) are deemed to be "June 2020 Approved Investment Notes" for purposes of the Supplemental Agreement, and therefore the Company has agreed to redeem \$80 million principal amount of the New Notes by September 30, 2020 and (iii) are deemed to be "Notes" for the purposes of the Series B Warrants, and therefore may be tendered pursuant to a Note Cancellation under the Series B Warrants on the terms set forth in the Series B Warrants and the New Notes. Delivery of notes in the form of the New Notes will satisfy the delivery of Exchange Notes pursuant to Section 16(i) of the Certificate of Designations of the Company's Series A Convertible Preferred Stock, par value \$0.001 per share. The New Notes will not be deemed to be "Notes" for the purposes of the Registration Rights Agreement, dated as of November 18, 2019, by and between the Company, Starboard and the Buyers. Refer to Note 13 for additional information.

LF Equity Income Fund Portfolio Investment

On April 3, 2020, the Company entered into an Option Agreement with LF Equity Income Fund, or Seller, to purchase equity securities in a portfolio of public and private companies, or Portfolio Companies, for an aggregate purchase price of £223.9 million, approximately \$277.5 million at the exchange rate on April 3, 2020.

On June 4, 2020, the Company executed the Transaction Agreement between Link Fund Solutions Limited, or Link, Seller, and the Company. Pursuant to the Transaction Agreement, the Company will purchase from Seller and the Seller will transfer to the Company the specified equity securities of all Portfolio Companies at set prices at various future dates. In accordance with the Transaction Agreement, the Company transferred the total purchase price of £223.9 million into an escrow account. As each of the equity securities in the Portfolio are transferred to the Company, the associated funds will be released from the escrow account to the Seller based on the consideration amount assigned to the equity securities in the Transaction Agreement.

The Transaction Agreement includes an initial consideration amount for each of the equity securities as noted above, which represents the amount of cash that will be withdrawn from the escrow account upon the transfer of each security to the Company. Refer to Note 14 for additional information.

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;
- the willingness of prospective licensees to settle significant patent infringement cases and pay reasonable license fees for the use of our patented technology, as such infringement cases approached a court determined trial date; and
- fluctuations in overall patent portfolio related enforcement activities which are impacted by the portfolio intake challenges discussed above.

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

Revenues for the six months ended June 30, 2020 and 2019 included fees from the following technology licensing and enforcement programs:

- | | |
|--|--|
| • Bone Wedge technology ⁽¹⁾⁽²⁾ | • Speech codecs used in wireless and wireline systems technology ⁽¹⁾⁽²⁾ |
| • Internet search, advertising and cloud computing technology ⁽¹⁾ | • Super Resolutions Microscopy technology ⁽¹⁾⁽²⁾ |
| • MIPI DSI technology ⁽¹⁾ | • Video Conferencing technology ⁽¹⁾ |
| • Semiconductor and Memory-Related technology ⁽¹⁾ | |

⁽¹⁾ Licensing and enforcement program generating revenue during the six months ended June 30, 2020.

⁽²⁾ Licensing and enforcement program generating revenue during the six months ended June 30, 2019.

Summary of Consolidated Results of Operations - Overview

For the Three months Ended June 30, 2020 and 2019

	Three Months Ended June 30,		\$ Change	% Change	Six Months Ended June 30,		\$ Change	% Change
	2020	2019			2020	2019		
(In thousands, except percentage change values)								
Revenues	\$ 2,118	\$ 5,460	\$ (3,342)	(61%)	\$ 5,933	\$ 8,847	\$ (2,914)	(33%)
Operating costs and expenses	8,866	9,434	(568)	(6%)	16,250	19,726	(3,476)	(18%)
Operating loss	(6,748)	(3,974)	(2,774)	70%	(10,317)	(10,879)	562	5%
Other income (expense), net	12,894	(1,774)	14,668	827%	3,834	1,047	2,787	266%
Income (loss) before provision for income taxes	6,146	(5,748)	11,894	207%	(6,483)	(9,832)	3,349	34%
Provision for income taxes	2	(9)	11	122%	1,340	(323)	1,663	515%
Net income (loss) attributable to Acacia Research Corporation	6,148	(5,757)	11,905	207%	(5,143)	(10,141)	4,998	49%

Results of Operations - Three months ended June 30, 2020 compared with the three months ended June 30, 2019

Revenues decreased \$3.3 million to \$2.1 million for the three months ended June 30, 2020, as compared to \$5.5 million in the comparable prior year quarter, primarily due to a 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.

Income before provision for income taxes was \$6.1 million for the three months ended June 30, 2020, as compared to a loss of \$5.7 million for the three months ended June 30, 2019. 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:

- Paid-up revenue decreased \$3.1 million due to a decrease in revenue from newly executed licensing agreements during the quarter, in addition to a decrease of \$270,000 in recurring revenue due to a decrease in the number of revenue contracts that provides for quarterly sales-based license fees. Refer to Note 2 to the consolidated financial statements elsewhere herein for additional information regarding certain sales-based revenue contracts that provide for the payment of quarterly license fees based on quarterly sales of applicable product units by licensees.
- Inventor royalties and contingent legal fees, on a combined basis, decreased \$2.3 million, from \$3.0 million to \$0.7 million, primarily due to a decrease in revenues as describe above.
- Litigation and licensing expenses-patents decreased \$0.4 million, from \$1.9 million to \$1.5 million, primarily due to a net decrease in litigation support and third-party technical consulting expenses associated with ongoing litigation.
- Amortization expense increased \$0.5 million, from \$0.8 million to \$1.3 million, due to an increase in scheduled amortization resulting from the new portfolios acquired in 2019 and 2020.

- Other portfolio expenses decreased \$74,000, due to reversal of expenses for settlement and contingency accruals recorded in the first quarter of 2020.
- General and administrative expenses, excluding non-cash stock compensation, increased \$1.8 million, from \$3.3 million to \$5.1 million, primarily due to higher corporate, general and administrative costs related to legal and other business development expenses.
- Net non-cash stock compensation expense decreased \$38,000, from \$461,000 to \$423,000, primarily due to timing of stock grants issued to employees and Board of Directors in the quarters ended June 30, 2020 and June 30, 2019.
- Unrealized gain or loss on our equity investment in Veritone, Inc., or Veritone, decreased from an unrealized gain of \$7.0 million for the three months ended June 30, 2019 to an unrealized gain of \$2.7 million for the three months ended June 30, 2020. Realized gain or loss on our equity investment in Veritone increased from a loss of \$1.6 million for the three months ended June 30, 2019 to a gain of \$0.6 million for the three months ended June 30, 2020. Refer to Note 5 to the consolidated financial statements elsewhere herein for additional information regarding our investment in Veritone.
- Unrealized gain or loss from trading securities increased from an unrealized loss of \$61,000 for the three months ended June 30, 2019 to an unrealized gain of \$3.5 million for the three months ended June 30, 2020. Realized gain or loss from sale of our trading securities decreased from a gain of \$31,000 for the three months ended June 30, 2019 to a loss of \$7.1 million for the three months ended June 30, 2020. Refer to Notes 2 and 14 to the consolidated financial statements elsewhere herein for additional information regarding our investment in trading securities.
- We incurred an unrealized gain of \$81.6 million from on our investment in equity securities derivative and forward contract. Refer to Notes 2 and 14 to the consolidated financial statements elsewhere herein for additional information.
- Interest income and other decreased \$0.8 million, from a net income of \$1.1 million for the three months ended June 30, 2019 to a net income of \$0.3 million for the three months ended June 30, 2020, mainly due to decrease in interest income from 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.
- We incurred interest expense of \$0.8 million during the quarter from the Senior Secured Notes issued in June 2020. Refer to Note 13 to the consolidated financial statements elsewhere herein for additional information regarding the Starboard Securities.
- We incurred \$4.9 million loss on foreign currency exchange during the quarter primarily from our purchase of the LF Income Equity Fund securities for £223.9 million. Refer to Note 14 to the consolidated financial statements elsewhere herein for additional information.
- We incurred an unrealized net loss of \$62.9 million from the fair value measurements of the Series A and Series B warrants and the embedded derivative for the three months ended June 30, 2020. Refer to Notes 10, 11 and 12 to the consolidated financial statements elsewhere herein for additional information regarding the Starboard Securities.

Results of Operations - Six months ended June 30, 2020 compared with the six months ended June 30, 2019

Revenues decreased \$2.9 million to \$5.9 million for the six months ended June 30, 2020, as compared to \$8.8 million in the comparable prior year quarter, primarily due to a 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 \$6.5 million for the six months ended June 30, 2020, as compared to \$9.8 million for the six months ended June 30, 2019. 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:

- Paid-up revenue increased \$228,000 due to increase in newly executed licensing, offset by a decrease of \$3.1 million in recurring revenue due to a decrease in the number of revenue contracts that provides for quarterly sales-based license fees agreements, during the six months ended June 30, 2020 as compared to the six months ended June 30, 2019. Refer to Note 2 to the consolidated financial statements elsewhere herein for additional information regarding certain sales-based revenue contracts that provide for the payment of quarterly license fees based on quarterly sales of applicable product units by licensees.
- Inventor royalties and contingent legal fees, on a combined basis, decreased \$3.2 million, from \$4.5 million to \$1.3 million, primarily due to a decrease in revenues as describe above.
- Litigation and licensing expenses-patents decreased \$3.2 million, from \$5.7 million to \$2.5 million, due primarily to a net decrease in litigation support and third-party technical consulting expenses associated with ongoing litigation.
- Amortization expense increased \$0.8 million, from \$1.5 million to \$2.3 million, due to an increase in scheduled amortization resulting from the new portfolios acquired in 2019 and 2020.
- Other portfolio expenses decreased \$1.0 million, from \$0.7 million to a credit of \$0.3 million, primarily due to reversal of expenses for settlement and contingency accruals recorded in the third quarter of 2018.
- General and administrative expenses, excluding non-cash stock compensation, increased \$2.6 million, from \$7.0 million to \$9.6 million, primarily due to higher corporate, general and administrative costs related to legal and other business development expenses.
- Net non-cash stock compensation expense increased \$0.3 million, from \$0.5 million to \$0.8 million, primarily due to stock grants issued to employees and Board of Directors in 2019 and 2020.
- Unrealized gain or loss on our equity investment in Veritone, decreased from an unrealized gain of \$13.9 million for the six months ended June 30, 2019 to an unrealized gain of \$6.8 million for the six months ended June 30, 2020. Realized loss on our equity investment in Veritone decreased from a loss of \$7.2 million for the six months ended June 30, 2019 to a loss of \$2.8 million for the six months ended June 30, 2020. Refer to Note 5 to the consolidated financial statements elsewhere herein for additional information regarding our investment in Veritone.
- Unrealized gain or loss from trading securities decreased from an unrealized gain of \$0.6 million for the six months ended June 30, 2019 to an unrealized loss of \$2.6 million for the six months ended June 30, 2020. Realized loss from sale of our trading securities increased from a loss of \$12,000 for the six months ended June 30, 2019 to a loss of \$7.0 million for the six months ended June 30, 2020. Refer to Notes 2 and 14 to the consolidated financial statements elsewhere herein for additional information regarding our investment in trading securities.
- We incurred an unrealized gain of \$81.6 million from on our investment in equity securities derivative and forward contract. Refer to Notes 2 and 14 to the consolidated financial statements elsewhere herein for additional information.
- Interest income and other decreased \$1.2 million, from a net income of \$2.0 million for the six months ended June 30, 2019 to a net income of \$0.8 million for the three months ended June 30, 2020, mainly due to decrease in interest income from 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
- We incurred interest expense of \$0.8 million during the quarter from the Senior Secured Note issued in June 2020. Refer to Note 13 to the consolidated financial statements elsewhere herein for additional information regarding the Starboard Securities.
- We incurred \$4.9 million loss on foreign currency exchange during the quarter primarily from our purchase of the LF Income Equity Fund securities for £223.9 million. Refer to Note 14 to the consolidated financial statements elsewhere herein for additional information.
- We incurred an unrealized net loss of \$67.3 million from the fair value measurements of the Series A and Series B warrants and the embedded derivative for the six months ended June 30, 2020. Refer to Notes 10, 11, 12 and 13 to the consolidated financial statements elsewhere herein for additional information regarding the Starboard Securities.

Revenues and Pretax Net Loss

Revenue for the periods presented included the following:

	Three Months Ended		Change		Six Months Ended		Change	
	June 30,				June 30,			
	2020	2019	\$	%	2020	2019	\$ Change	% Change
Revenues (in thousands, except percentage change values)	\$ 2,118	\$ 5,460	\$ (3,342)	(61%)	\$ 5,933	\$ 8,847	\$ (2,914)	(33%)
New agreements executed	4	1	3	300%	8	1	7	700%
Licensing and enforcement programs generating revenues	4	3	1	33%	7	3	4	133%
Licensing and enforcement programs with initial revenues	1	—	1	n/a	1	—	1	n/a
New patent portfolios	2	1	1	100%	4	3	1	33%

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		Six Months Ended		Change	
	June 30,				June 30,			
	2020	2019	\$	%	2020	2019	\$ Change	% Change

(In thousands, except percentage change values)

Income (loss) before provision for income taxes	\$ 6,146	\$ (5,748)	\$ 11,894	207%	\$ (6,483)	\$ (9,832)	\$ 3,349	34%
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Cost of Revenues

Inventor Royalties, Contingent Legal Fees Expense and Other

Inventor royalties and contingent legal fee expenses fluctuate from 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.

	Three Months Ended		Change		Six Months Ended		Change	
	June 30,				June 30,			
	2020	2019	\$	%	2020	2019	\$ Change	% Change
Inventor royalties	\$ 645	\$ 2,623	\$ (1,978)	(75%)	\$ 1,071	\$ 3,976	\$ (2,905)	(73%)
Contingent legal fees	12	375	(363)	(97%)	246	552	(306)	(55%)

Litigation and Licensing Expenses - Patents

For the three months ended June 30, 2020, litigation and licensing expenses-patents decreased \$0.4 million, or 21%. For the six months ended June 30, 2020, litigation and licensing expenses-patents decreased \$3.2 million, or 56%. These decreases were due to a net decrease in litigation support and third-party technical consulting expenses, as compared to the same periods in the prior year.

Amortization of Patents

For the three months ended June 30, 2020, amortization expense increased \$0.5 million, or 60%, as compared to the three months ended June 30, 2019. For the six months ended June 30, 2020, amortization expense increased \$0.9 million, or 59%, as compared to the six months ended June 30, 2019. These increases were due to our new patents acquired in 2019 and 2020.

	Three Months Ended June 30,		Change		Six Months Ended June 30,		Change	
	2020	2019	\$	%	2020	2019	\$ Change	% Change
	(In thousands, except percentage change values)							
Litigation and licensing expenses - patents	\$ 1,459	\$ 1,855	\$ (396)	(21%)	\$ 2,496	\$ 5,656	\$ (3,160)	(56%)
Amortization of patents	1,305	818	487	60%	2,348	1,474	874	59%

Operating Expenses

General and Administrative Expenses

	Three Months Ended June 30,		Change		Six Months Ended June 30,		Change	
	2020	2019	\$	%	2020	2019	\$ Change	% Change
	(In thousands, except percentage change values)							
General and administrative expenses	\$ 5,096	\$ 3,302	\$ 1,794	54%	\$ 9,642	\$ 6,965	\$ 2,677	38%
Non-cash stock compensation expense - G&A	423	461	(38)	(8%)	755	453	302	67%
Total general and administrative expenses	\$ 5,519	\$ 3,763	\$ 1,756	47%	\$ 10,397	\$ 7,418	\$ 2,979	40%

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

	Three Months Ended June 30, 2020 vs. 2019	Six Months Ended June 30, 2020 vs. 2019
	(In thousands)	
Personnel costs and board fees	\$ (45)	\$ (127)
Variable performance-based compensation costs	950	1,375
Corporate, general and administrative costs	954	1,559
Non-cash stock compensation expense	(38)	302
Non-recurring employee severance costs	(65)	(130)
Total change in general and administrative expenses	<u>\$ 1,756</u>	<u>\$ 2,979</u>

The increases in corporate, general and administrative costs were primarily due to higher legal and business development related expenses. The increase in variance performance-based compensation costs were primarily due to higher performance-based compensation accruals. The changes 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, September 30, 2019, and June 30, 2020.

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 six months ended June 30, 2020 included an unrealized gain totaling \$2.7 million and an unrealized gain totaling \$6.8 million, respectively, on our investment in Veritone. Results for the three and six months ended June 30, 2019 included unrealized gains totaling \$7.0 million and \$13.9 million, respectively, on our investment in Veritone. Refer to Note 5 to the consolidated financial statements elsewhere herein for additional information regarding our investment in Veritone.

Income Taxes

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2020	2019	2020	2019
Income taxes (in thousands)	\$ 2	\$ (9)	\$ 1,340	\$ (323)
Effective tax rate	(0%)	(0%)	21%	(3%)

Tax expense for the periods presented primarily reflects the impact of state taxes and foreign taxes withholding or refund 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 twelve months from the date of this report 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 under Part II, Item 1A, "Risk Factors". 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 in recent years, and the volatility and impact of the disruption may continue. At times during this period, the volatility and disruption has reached unprecedented levels. In several cases, the markets have exerted downward pressure on stock prices and credit capacity for certain issuers, and the commercial paper markets may not be a reliable source of short-term financing for us. 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, cash equivalents, trading securities, and restricted cash totaled \$184.0 million at June 30, 2020, compared to \$203.3 million at December 31, 2019.

The net change in cash, cash equivalents and restricted cash for the periods presented was comprised of the following:

	Six Months Ended	
	June 30,	
	2020	2019
(In thousands)		
Net cash provided by (used in):		
Operating activities	\$ (7,143)	\$ (2,268)
Investing activities	(30,874)	(63,133)
Financing activities	109,938	79
Increase (decrease) in cash and cash equivalents and restricted cash	<u>\$ 71,921</u>	<u>\$ (65,322)</u>

Cash Flows from Operating Activities

Cash receipts from licensees for the six months ended June 30, 2020 decreased \$22.1 million to \$5.0 million, as compared to \$27.1 million in the comparable 2019 period, mainly due to the timing on cash collected from accounts receivables in prior year.

Cash outflows from operations for the six months ended June 30, 2020 increased to \$7.1 million, as compared to \$2.3 million in the comparable 2019 period, primarily due to the decreases in cash receipts from licensees for the same periods, offset by higher royalty and contingent legal fees paid in the same period last year. 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:

	Six Months Ended	
	June 30,	
	2020	2019
Patent acquisition costs	\$ (13,780)	\$ (4,420)
Sale of investment at fair value ⁽¹⁾	1,460	5,045
Net sale (purchase) of trading securities	267,910	(63,758)
Purchase of prepaid investment	(282,327)	-
Equity securities derivative and forward contract acquisition cost	(3,989)	-
Purchases of property and equipment	(148)	-
Net cash used in investing activities	<u>\$ (30,874)</u>	<u>\$ (63,133)</u>

⁽¹⁾ Refer to Note 5 to the consolidated financial statements elsewhere herein for additional information

Cash Flows from Financing Activities

Cash flows from financing activities and related changes were comprised of the following for the periods presented:

	Six Months Ended	
	June 30,	
	2020	2019
	(In thousands)	
Repurchase of common stock	\$ (3,998)	\$ —
Dividend on Series A Redeemable Convertible Preferred Stock	(653)	—
Issuance of Senior Secured Notes, net of lender fee	110,437	—
Senior Secured Notes issuance costs paid to other parties	(496)	—
Issuance of Series B warrants	4,600	—
Proceeds from exercise of stock options	48	79
Net cash provided by financing activities	<u>\$ 109,938</u>	<u>\$ 79</u>

Stock Repurchase Program

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

During the six months ended June 30, 2020, we repurchased 1,684,537 shares at an average price of \$2.37 per share for \$3,999,000. 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. Refer to Note 7 to our notes to consolidated financial statements elsewhere herein for additional information regarding our stock repurchases in 2020.

Starboard Investment

On November 18, 2019, the Company entered into the Securities Purchase Agreement with Starboard pursuant to which Starboard purchased (i) 350,000 shares of Series A Preferred Stock at an aggregate purchase price of \$35,000,000, and Series A Warrants to purchase up to 5,000,000 shares of the Company's common stock.

On February 25, 2020, pursuant to the terms of the Securities Purchase Agreement with Starboard, the Company issued Series B Warrants to purchase up to 100 million shares of the Company's common stock at an exercise price of either (i) \$5.25 per share, if exercising by cash payment, or (ii) \$3.65 per share, if exercising by cancellation of a portion of senior secured notes. The Company issued the Series B Warrants for an aggregate purchase price of \$4.6 million.

On June 4, 2020, pursuant to the Securities Purchase Agreement signed in November 2019, the Company issued \$115 million in Notes to Starboard. Per the Supplemental Agreement, interest is payable semiannually at a rate of 6% per annum, and in an event of default, the interest rate is increased to 10% per annum.

On June 30, 2020, the Company entered into the Exchange Agreement with Merton and Starboard, on behalf of itself and on behalf of certain funds and accounts under its management, including the holders of the Notes. Pursuant to the Exchange Agreement, the holders of the Notes exchanged the entire outstanding principal amount for New Notes issued by Merton having an aggregate outstanding original principal amount of \$115 million.

Refer to Notes 2, 10, 11, 12 and 13 to our notes to consolidated financial statements and elsewhere herein for more information related to the Starboard Securities.

Working Capital

Working capital at June 30, 2020 increased to \$240.6 million, as compared to \$160.1 million at December 31, 2019. Consolidated accounts receivable from licensees increased to \$1.4 million at June 30, 2020, compared to \$0.5 million at December 31, 2019. Accounts payable and accrued expenses and accrued compensation decreased to \$7.9 million at June 30, 2020, from \$9.5 million at December 31, 2019. Consolidated royalties and contingent legal fees payable decreased to \$2.1 million at June 30, 2020, from \$2.2 million at December 31, 2019.

The royalties and contingent legal fees payable are generally scheduled to be paid in the subsequent quarter upon our receipt 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 assumptions, judgments and estimates that can have a significant impact on amounts reported in these condensed consolidated financial statements. We base our assumptions, judgments and estimates on historical experience and various other factors that we believe to be reasonable under the circumstances. Actual results could differ materially from these estimates under different assumptions or conditions. On a regular basis, we evaluate our assumptions, judgments and estimates and make changes accordingly.

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 June 30, 2020, 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 trading securities 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 trading securities 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 trading securities 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. 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.

During the quarter ended June 30, 2020, we sold all our investment in debt trading securities, 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).

Investment Risk

We are exposed to investment risks related to changes in the underlying financial condition of certain of our equity investments in these technology companies. The fair value of these investments can be significantly impacted by the risk of adverse changes in securities markets generally, as well as risks related to the performance of the companies whose securities we have invested in, risks associated with specific industries, and other factors. These investments are subject to significant fluctuations in fair value due to the volatility of the securities markets and of the underlying businesses.

As of June 30, 2020 and December 31, 2019, the carrying value of our common stock and warrants, including equity securities derivative and forward contract, in public and private companies was \$106.7 million and \$18.6 million, respectively.

We record our common stock and warrant investments in publicly traded companies at fair value, which are subject to market price volatility. As of June 30, 2020, a hypothetical 10% adverse change in the market price of our investments in publicly traded common stock would have resulted in a decrease of approximately \$0.9 million in the fair value of our equity warrant investments in Veritone and a decrease of approximately \$2.7 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 Chief Financial Officer, 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 Chief Financial Officer concluded that, as of June 30, 2020, 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 Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure, and that such information is recorded, processed, summarized and reported within the time periods prescribed by the SEC.

(ii). Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during our last fiscal quarter (the quarter ended June 30, 2020) 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 Chief Financial Officer, 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 September 6, 2019, Slingshot Technologies, LLC, or Slingshot, filed suit in Delaware Chancery Court against the Company, Acacia Research Group, LLC, and Monarch Networking Solutions LLC, or collectively, the Acacia Entities, Acacia board member Katharine Wolanyk, and Transpacific IP Group, Ltd., or Transpacific. Slingshot alleges that the Acacia Entities misappropriated its confidential and proprietary information, purportedly furnished to the Acacia Entities by Ms. Wolanyk, in acquiring a patent portfolio from Transpacific after Slingshot's exclusive option to purchase the same patent portfolio from Transpacific had already expired. Slingshot seeks monetary damages, as well as equitable and injunctive relief related to its alleged right to own the portfolio. The Acacia Entities maintain that Slingshot's allegations are baseless, that Ms. Wolanyk had no involvement in the acquisition, that the Acacia Entities neither had access to nor used Slingshot's information in acquiring the portfolio, that the Acacia Entities acquired the portfolio as a result of the independent efforts of its IP licensing group, and that Slingshot suffered no damages given its exclusive option to purchase the portfolio had already ended and it has proven itself incapable of closing on the portfolio purchase.

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 II, Item 1A 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.

Risks related to COVID-19

Public health threats such as COVID-19 could have a material adverse effect on our operations, the operations of our business partners, and the global economy as a whole.

Public health threats and other highly communicable diseases, outbreaks of which have already occurred in various parts of the world, could adversely impact our operations, as well as the operations of our licensees and other business partners. With regard to COVID-19, we do not expect the current situation to present direct risks to our business. Our cash is held in major financial institutions in government instruments and high quality short-term bonds. Our business is fully able to operate in a socially-distanced and/or remote capacity and in accordance with applicable laws, policies, and best practices. Our workforce is provided ample paid sick leave, and we have in place robust disaster recovery and business continuity policies that have been revised to account for a long-term remote work contingency such as this. However, the ongoing pandemic may present risks that we do not currently consider material or risks that may evolve quickly that could have a materially adverse effect on our business, financial condition, operating results, and/or 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 NUMBER	EXHIBIT
2.1	Transaction Agreement, dated as of June 4, 2020, between LF Equity Income Fund and Acacia Research Corporation (incorporated by reference to Acacia Research Corporation's Current Report on Form 8-K filed on June 10, 2020 (File No. 001-37721))
3.1#	Second Amended and Restated Bylaws of Acacia Research Corporation (as updated through July 28, 2020 and currently in effect)
4.1	Form of Note (incorporated by reference to Acacia Research Corporation's Current Report on Form 8-K filed on June 10, 2020 (File No. 001-37721))
10.1*	Employment Agreement, dated June 4, 2020, by and among Acacia Research Group, LLC, Acacia Research Corporation and Richard Rosenstein (incorporated by reference to Acacia Research Corporation's Current Report on Form 8-K filed on June 4, 2020 (File No. 001-37721))
10.2*	Employment Agreement, dated June 4, 2020, by and among Acacia Research Group, LLC, Acacia Research Corporation and Meredith Simmons (incorporated by reference to Acacia Research Corporation's Current Report on Form 8-K filed on June 4, 2020 (File No. 001-37721))
10.3	Supplemental Agreement, dated as of June 4, 2020, between Starboard Value, L.P. and Acacia Research Corporation (incorporated by reference to Acacia Research Corporation's Current Report on Form 8-K filed on June 10, 2020 (File No. 001-37721))
10.4*	Employment Agreement, dated June 19, 2020, by and between Acacia Research Group, LLC and Marc W. Booth (incorporated by reference to Acacia Research Corporation's Current Report on Form 8-K filed on June 25, 2020 (File No. 001-37721))
10.5	Exchange Agreement, dated June 30, 2020, among Acacia Research Corporation, Merton Acquisition HoldCo LLC and Starboard Value LP (incorporated by reference to Acacia Research Corporation's Current Report on Form 8-K filed on July 7, 2020 (File No. 001-37721))
10.6	Form of Senior Secured Note (incorporated by reference to Acacia Research Corporation's Current Report on Form 8-K filed on July 7, 2020 (File No. 001-37721))
10.7	Stock Pledge Agreement, dated June 30, 2020, entered into by Acacia Research Group LLC, Advanced Skeletal Innovations LLC and Saint Lawrence Communications LLC in favor of Starboard Value Intermediate Fund LP, as collateral agent (incorporated by reference to Acacia Research Corporation's Current Report on Form 8-K filed on July 7, 2020 (File No. 001-37721))
10.8	Guaranty, dated June 30, 2020, entered into by the Guarantors (as defined therein) in favor of the Holders (as defined therein) (incorporated by reference to Acacia Research Corporation's Current Report on Form 8-K filed on July 7, 2020 (File No. 001-37721))
10.9	Release of Security Interests in Patents, dated June 30, 2020, between the Releasees (as defined therein) and Starboard Value Intermediate Fund LP, as collateral agent (incorporated by reference to Acacia Research Corporation's Current Report on Form 8-K filed on July 7, 2020 (File No. 001-37721))
31.1#	Certification of Principal Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934
31.2#	Certification of Principal Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934
32.1**#	Certification of Principal Executive Officer Pursuant to Rule 13a-14(b)/15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350
32.2**#	Certification of Principal Financial Officer Pursuant to Rule 13a-14(b)/15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350
101#	Interactive Data Files Pursuant to Rule 405 of Regulation S-T

Filed herewith.

* 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: August 10, 2020

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

Date: August 10, 2020

/s/ Richard Rosenstein
By: **Richard Rosenstein**
Chief Financial Officer
(Principal Financial Officer)

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**SECOND AMENDED AND RESTATED
BYLAWS OF
ACACIA RESEARCH CORPORATION
(A DELAWARE CORPORATION)**

**ARTICLE 1
OFFICES**

1.1 The registered office shall be in the City of Wilmington, County of New Castle, State of Delaware.

1.2 The corporation may also have offices at such other places both within and without the State of Delaware as the Board of Directors may from time to time determine or the business of the corporation may require.

**ARTICLE 2
MEETINGS OF STOCKHOLDERS**

2.1 All meetings of the stockholders shall be held at such place, within or without the State of Delaware, as shall be designated from time to time by the Board of Directors and stated in the notice of the meeting or in a duly executed waiver of notice thereof.

2.2 The Secretary shall prepare and make, at least 10 days before every meeting of stockholders, a complete list of stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least 10 days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present.

2.3 Annual Meetings. Annual meetings of stockholders shall be held at such date and time as shall be designated from time to time by the Board of Directors and stated in the notice of the meeting, at which they shall elect directors and transact such other business as may properly be brought before the meeting. At an annual meeting of the stockholders, only such business shall be conducted as shall have been properly brought before the meeting.

2.4 Special Meetings. Special meetings of stockholders may be called at any time by the Board of Directors or by the Chairman of the Board of Directors, or the President, or the Secretary of the Corporation upon the written request of one or more stockholders of record of the Corporation (a "Stockholder Requested Special Meeting") that hold at least twenty-five percent (25%) in voting power of the outstanding shares of stock of the Company (the "Requisite Percent") and who have delivered such requests in accordance with and subject to the procedures and conditions and any other provisions set forth in these Bylaws, including any limitations on the ability to make such a request for such a special meeting. Upon such written request to the Secretary by any person or persons (other than the Board of Directors) entitled to call a special meeting of the stockholders, the Secretary shall cause notice to be given to the stockholders entitled to vote that a meeting will be held at such time as determined pursuant to subsection 2.4.2. Subject to the provisions of applicable law, only such business shall be considered at a special meeting of the stockholders as shall have been stated in the notice for such meeting.

2.4.1 Stockholder Requested Special Meetings. In order for a Stockholder Requested Special Meeting to be called, one or more requests for a special meeting (each, a "Special Meeting Request," and collectively, the "Special Meeting Requests") must be signed by the Requisite Percent of stockholders submitting such request and by each of the beneficial owners, if any, on whose behalf the Special Meeting Request is being made and must be delivered to the Secretary of the Corporation. The Special Meeting Request(s) shall be delivered to the Secretary of the Corporation at the principal executive offices of the Corporation by overnight express courier or registered mail, return receipt requested. Each Special Meeting Request shall (i) set forth a statement of the specific purpose(s) of the meeting and the matters proposed to be acted on at it, (ii) bear the date of signature of each such stockholder signing the Special Meeting Request, (iii) set forth (A) the name and address, as they appear in the Corporation's books, of each stockholder signing such request and the beneficial owners, if any, on whose behalf such request is made, and (B) the class, if applicable, and the number of shares of common stock of the Corporation that are owned of record and beneficially (within the meaning of Rule 13d-3 under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) by each such stockholder and the beneficial owners, if any, on whose behalf such request is made, (iv) include documentary evidence that the stockholders requesting the special meeting own the Requisite Percent as of the date on which the Special Meeting Request is delivered to the Secretary of the Corporation; provided, however, that if the stockholders are not the beneficial owners of the shares constituting all or part of the Requisite Percent, then to be valid, the Special Meeting Request must also include documentary evidence (or, if not simultaneously provided with the Special Meeting Request, such documentary evidence must be delivered to the Secretary of the Corporation within ten (10) days after the date on which the Special Meeting Request is delivered to the Secretary of the Corporation) that the beneficial owners on whose behalf the Special Meeting Request is made beneficially own such shares as of the date on which such Special Meeting Request is delivered to the Secretary of the Corporation, (v) an agreement by each of the stockholders requesting the special meeting and each beneficial owner, if any, on whose behalf the Special Meeting Request is being made to notify the Corporation promptly in the event of any decrease in the voting power of the shares held by such stockholder or beneficial owner following the delivery of such Special Meeting Request and prior to the special meeting and an acknowledgement that any such decrease shall be deemed to be a revocation of such Special Meeting Request by such stockholder or beneficial owner to the extent of such reduction, and (vi) contain the information required by Section 2.5 and Section 2.6, as applicable. Any requesting stockholder may revoke his, her or its Special Meeting Request at any time prior to the special meeting by written revocation delivered to the Secretary of the Corporation at the principal executive offices of the Corporation. If at any time after sixty (60) days following the earliest dated Special Meeting Request, the unrevoked (whether by specific written revocation by the stockholder or pursuant to clause (b)(v) of this subsection 2.4.1) valid Special Meeting Requests represent in the aggregate less than the Requisite Percent, then the requesting stockholder(s) or beneficial owner(s) shall be deemed to have withdrawn such request (in connection with which the Board of Directors may cancel the meeting).

In determining whether a special meeting of stockholders has been requested by stockholders holding in the aggregate at least the Requisite Percent, multiple Special Meeting Requests delivered to the Secretary of the Corporation will be considered together only if (i) each Special Meeting Request identifies substantially the same purpose or purposes of the special meeting and substantially the same matters proposed to be acted on at the special meeting (in each case as determined in good faith by the Board of Directors), and (ii) such Special Meeting Requests have been delivered to the Secretary of the Corporation within sixty (60) days of the earliest dated Special Meeting Request.

2.4.2 Calling of a Special Meeting. Except as provided in the next sentence, a special meeting requested by stockholders shall be held at such date, time and place within or without the State of Delaware as may be fixed by the Board of Directors; provided, however, that the date of any such special meeting shall be not more than ninety (90) days after the date on which valid Special Meeting Request(s) constituting the Requisite Percent are delivered to the Secretary of the Corporation (such date of delivery being the "Delivery Date"). Notwithstanding the foregoing, the Secretary of the Corporation shall not be required to call a special meeting of stockholders if (i) the Board of Directors has already called an annual meeting of stockholders, or a special meeting of stockholders, which has not yet been held at which a Similar Item (as defined in this subsection 2.4.2) is to be presented pursuant to the notice of such meeting, in either case to be held not later than ninety (90) days after the Delivery Date; (ii) the Delivery Date is during the period commencing ninety (90) days prior to the first anniversary of the date of the immediately preceding annual meeting and ending on the date of the next annual meeting; or (iii) the Special Meeting Request(s) (A) contain an identical or substantially similar item (as determined in good faith by the Board of Directors, a "Similar Item") to an item that was presented at any meeting of stockholders held not more than seventy-five (75) days before the Delivery Date (and, for purposes of this clause (iii) the election of directors shall be deemed a "Similar Item" with respect to all items of business involving the election or removal of directors); (B) relate to an item of business that is not a proper subject for action by the stockholders under applicable law; (C) were made in a manner that involved a violation of Regulation 14A under the Exchange Act or other applicable law; or (D) do not comply with the provisions of this Section 2.4.

2.4.3 Business Transacted at a Special Meeting. Subject to Section 2.6, Business transacted at any Stockholder Requested Special Meeting shall be limited to the purpose or purposes stated in the Special Meeting Request(s) for such special meeting; provided, however, that nothing herein shall prohibit the Board of Directors from submitting additional matters to stockholders at any such special meeting pursuant to the Corporation's notice of meeting. If none of the stockholders who submitted a Special Meeting Request appears at or sends a duly authorized representative to the Stockholder Requested Special Meeting to present the matters to be presented for consideration that were specified in the Special Meeting Request, the corporation need not present such matters for a vote at such meeting.

2.5 Business Which May Be Conducted.

2.5.1 Annual Meetings of the Stockholders. Nominations of persons for election to the Board of Directors and the proposal of business to be considered by the stockholders may be made at an annual meeting of the stockholders only (A) pursuant to the corporation's notice of meeting (or any supplement thereto), (B) by or at the direction of the Board of Directors or (C) by any stockholder of the corporation who was a stockholder of record of the corporation at the time the notice provided for in this Section is delivered to the Secretary, who is entitled to vote at the meeting and who complies with the notice procedures set forth in this Section.

2.5.2 For nominations or other business to be properly brought before an annual meeting by a stockholder pursuant to clause (C) of subsection 2.5.1, the stockholder must have given timely notice thereof in writing to the Secretary and any such proposed business other than the nominations of persons for election to the Board of Directors must constitute a proper matter for stockholder action. To be timely, a stockholder's notice shall be delivered to the Secretary at the principal executive offices of the corporation not later than the close of business on the 90th day nor earlier than the close of business on the 120th day prior to the first anniversary of the preceding year's annual meeting (provided, however, that in the event that the date of the annual meeting is more than 30 days before or more than 70 days after such anniversary date, notice by the stockholder must be so delivered not earlier than the close of business on the 120th day prior to such annual meeting and not later than the close of business on the later of the 90th day prior to such annual meeting or the 10th day following the day on which public announcement of the date of such meeting is first made by the corporation). In no event shall the public announcement of an adjournment or postponement of an annual meeting commence a new time period (or extend any time period) for the giving of a stockholder's notice as described above. Such stockholder's notice shall set forth: (A) as to each person whom the stockholder proposes to nominate for election as a director all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required, in each case pursuant to Regulation 14A under the Exchange Act and Rule 14a-11 thereunder (and such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected); (B) as to any other business that the stockholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the text of the proposal or business (including the text of any resolutions proposed for consideration and, in the event that such business includes a proposal to amend the Bylaws of the corporation, the language of the proposed amendment), the reasons for conducting such business at the meeting and any material interest in such business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made; and (C) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made (1) the name and address of such stockholder, as they appear on the corporation's books, and of such beneficial owner, (2) the class and number of shares of capital stock of the corporation which are owned beneficially and of record by such stockholder and such beneficial owner, (3) a representation that the stockholder is a holder of record of stock of the corporation entitled to vote at such meeting and intends to appear in person or by proxy at such meeting to propose such business or nomination, and (4) a representation whether the stockholder or beneficial owner, if any, intends or is part of a group which intends (x) to deliver a proxy statement and/or form of proxy to holders of at least the percentage of the corporation's outstanding capital stock required to approve or adopt the proposal or elect the nominee and/or (y) otherwise to solicit proxies from stockholders in support of such proposal or nomination. The corporation may require any proposed nominee to furnish such other information as it may reasonably require to determine the eligibility of such proposed nominee to serve as a director of the corporation.

2.5.3 Notwithstanding anything in the second sentence of subsection 2.5.2 to the contrary, in the event that the number of directors to be elected to the Board of Directors at the annual meeting is increased and there is no public announcement by the corporation naming the nominees for the additional directorships at least 100 days prior to the first anniversary of the preceding year's annual meeting, a stockholder's notice required by this Section shall also be considered timely, but only with respect to nominees for the additional directorships, if it shall be delivered to the Secretary of the corporation at the principal executive offices of the corporation not later than the close of business on the 10th day following the day on which such public announcement is first made by the corporation.

2.6 Special Meetings of the Stockholders. Only such business shall be conducted at a special meeting of the stockholders as shall have been brought before the meeting pursuant to the corporation's notice of meeting. Nominations of persons for election to the Board of Directors may be made at a special meeting of the stockholders at which directors are to be elected pursuant to the corporation's notice of meeting only by or at the direction of the Board of Directors.

2.7 General.

2.7.1 Only persons who are nominated in accordance with the procedures set forth in this Section shall be eligible to be elected at an annual or special meeting of the stockholders of the corporation to serve as directors and only such business shall be conducted at a meeting of the stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this Section. Except as otherwise provided by law, the Chief Executive Officer, as chairman of the meeting, shall have the power and duty (A) to determine whether a nomination or any business proposed to be brought before the meeting was made or proposed, as the case may be, in accordance with the procedures set forth in this Section (including whether the stockholder or beneficial owner, if any, on whose behalf the nomination or proposal is made or solicited (or is part of a group which solicited) or did not so solicit, as the case may be, proxies in support of such stockholder's nominee or proposal in compliance with such stockholder's representation as required by this Section) and (B) if any proposed nomination or business was not made or proposed in compliance with the Section, to declare that such nomination shall be disregarded or that such proposed business shall not be transacted.

2.7.2 For purposes of this Section, "PUBLIC ANNOUNCEMENT" shall include disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed by the corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Exchange Act.

2.7.3 Notwithstanding the foregoing provisions of this Section, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Section. Nothing in this Section shall be deemed to affect any rights (A) of stockholders to request inclusion of proposals in the corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act or (B) of the holders of any series of Preferred Stock to elect directors pursuant to any applicable provisions of the Certificate of Incorporation.

2.8 Notice. Written notice of each annual or special meeting shall be given not fewer than 10 days nor more than 60 days before the date of the meeting, to each stockholder entitled to vote at such meeting. Such notice shall state the place, date and hour of the meeting and (i) in the case of the annual meeting, those matters that the Board of Directors, at the time of the mailing of the notice, intends to present for action by the stockholders, and, subject to the provisions of applicable law, any other matters properly brought may be presented at the meeting for action, or (ii) in the case of a special meeting, the purpose or purposes for which the meeting was called, but, subject to the provisions of applicable law, no other business may be presented at the special meeting for action. The notice of any meeting at which directors are to be elected shall include the names of nominees intended at the time of the notice to be presented by the Board of Directors for election.

2.9 Notice of a stockholders' meeting shall be given by mail or by other means of written communication, addressed to the stockholder at the address of such stockholder appearing on the books of the corporation or given by the stockholder to the corporation for the purpose of notice. Notice by mail shall be deemed to have been given at the time a written notice is deposited in the United States mail, postage prepaid. Any other written notice shall be deemed to have been given at the time it is personally delivered to the recipient or is delivered to a common carrier for transmission, or actually transmitted by the person giving the notice by electronic means, to the recipient.

2.10 Quorum And Adjournment. Except as otherwise provided by law, the Certificate of Incorporation or these Bylaws, at each meeting of stockholders the presence in person or by proxy of the holders of a majority in voting power of the outstanding shares of stock entitled to vote at the meeting shall be necessary and sufficient to constitute a quorum. In the absence of a quorum, the stockholders so present may, by a majority in voting power thereof, adjourn the meeting from time to time in the manner provided in Section 2.11 until a quorum shall attend.

2.11 Any meeting of stockholders, annual or special, may adjourn from time to time to reconvene at the same or some other place, and notice need not be given of any such adjourned meeting if the time and place thereof are announced at the meeting at which the adjournment is taken. At the adjourned meeting the corporation may transact any business which might have been transacted at the original meeting. If the adjournment is for more than 30 days, or if after the adjournment a new record date is fixed for the adjourned meeting, notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

2.12 Voting. The stockholders entitled to notice of any meeting or to vote at any such meeting shall be only persons in whose name shares stand on the stock records of the corporation on the record date determined in accordance with Section 5.7.

2.13 Voting at the meetings of stockholders shall be subject to the following provisions:

2.13.1 Voting at meetings of stockholders need not be by written ballot.

2.13.2 Except as provided in Section 3.6 and in this subsection, at all meetings of stockholders for the election of directors, each director shall be elected by the vote of the majority of the votes cast. A majority of votes cast means that the number of shares cast "for" a director's election exceeds the number of votes cast "against" that director. The following shall not be votes cast: (a) a share whose ballot is marked as withheld; (b) a share otherwise present at the meeting but for which there is an abstention; and (c) a share otherwise present at the meeting as to which a stockholder gives no authority or direction.

The following procedures apply in a non-contested election. A nominee who does not receive a majority vote of the votes cast shall tender a written offer to resign to the Board of Directors within five business days of the certification of the stockholder vote. The Nominating and Governance Committee shall promptly consider the resignation offer and recommend to the full Board of Directors whether to accept the resignation. The Board of Directors will act on the Nominating and Governance Committee's recommendation within 90 calendar days following certification of the stockholder vote. Thereafter, the Board of Directors will promptly disclose its decision whether to accept the director's resignation offer and the reasons for rejecting the resignation offer, if applicable, in a current report on Form 8-K to be filed with the Securities and Exchange Commission within four business days of the Board of Directors' determination. Any director who tenders his or her resignation pursuant to this provision shall not participate in the Nominating and Governance Committee recommendation or Board of Directors action regarding whether to accept the resignation offer.

In a contested election, the directors shall be elected by the vote of a plurality of the votes cast.

2.13.3 All other elections and questions shall, unless otherwise provided by the Certificate of Incorporation, these Bylaws, the rules or regulations of any stock exchange applicable to the corporation or as otherwise provided by law or pursuant to any regulation applicable to the corporation, be decided by the affirmative vote of the holders of a majority of the shares of stock of the corporation which are present in person or by proxy and entitled to vote thereon.

2.14 Voting shall in all cases be subject to the provisions to the following provisions:

2.14.1 The stockholders of the corporation shall not have the right to cumulate their votes for the election of directors of the corporation.

2.14.2 Shares held by an administrator, executor, guardian, conservator or custodian may be voted by such holder either in person or by proxy, without a transfer of such shares into the holder's name; and shares standing in the name of a trust may be voted by the trustee of such trust, either in person or by proxy, but no trustee shall be entitled to vote shares held by such trust without a transfer of such shares into the trust's name.

2.14.3 Shares standing in the name of a receiver may be voted by such receiver, and shares held by or under the control of a receiver may be voted by such receiver without the transfer thereof into the receiver's name if authority to do so is contained in the order of the court by which such receiver was appointed.

2.14.4 Except where otherwise agreed in writing between the parties, a stockholder whose shares are pledged shall be entitled to vote such shares until the shares have been transferred into the name of the pledgee, and thereafter the pledgee shall be entitled to vote the shares so transferred.

2.14.5 Shares standing in the name of a minor may be voted and the corporation may treat all rights incident thereto as exercisable by the minor, in person or by proxy, whether or not the corporation has notice, actual or constructive, of the minor's actual age, unless a guardian of the minor's property has been appointed and written notice of such appointment given to the corporation.

2.14.6 Shares standing in the name of another corporation, domestic or foreign, may be voted by such officer, agent or proxyholder of such other corporation as the bylaws of such other corporation may prescribe or, in the absence of such provision, as the board of directors of such other corporation may determine or, in the absence of such determination, by the chairman of the board, president or any vice president of such other corporation, or by any other person authorized to do so by the chairman of the board, president or any vice president of such other corporation. Shares which are purported to be voted or any proxy purported to be executed in the name of a corporation (whether or not any title of the person signing is indicated) shall be presumed to be voted or the proxy executed in accordance with the provisions of this clause, unless the contrary is shown.

2.14.7 Shares of the corporation owned by its subsidiaries shall not be entitled to vote on any matter.

2.14.8 If shares stand of record in the names of two or more persons, whether fiduciaries, members of a partnership, joint tenants, tenants in common, husband and wife as community property, tenants by the entirety, voting trustees, persons entitled to vote under a stockholder voting agreement or otherwise, or if two or more persons (including proxyholders) have the same fiduciary relationship respecting the same shares, unless the Secretary is given written notice to the contrary and is furnished with a copy of the instrument or order appointing them or creating the relationship wherein it is so provided, their acts with respect to voting shall have the following effect:

- (a) If only one votes, such act binds all;
- (b) If more than one vote, the act of the majority so voting binds all; or
- (c) If more than one vote, but the vote is evenly split on any particular matter, each faction may vote the securities in question proportionately.

If the instrument so filed or the registration of the shares shows that any such tenancy is held in unequal interests, a majority or even split for the purpose of this Section shall be a majority or even split in interest.

2.15 Proxies. Each stockholder entitled to vote at a meeting of the stockholders may authorize another person or persons to act for such stockholder by proxy, but no such proxy shall be voted or acted upon after three years from its date, unless the proxy provides for a longer period. A proxy shall be irrevocable if it states that it is irrevocable and if, and only as long as, it is coupled with an interest sufficient in law to support an irrevocable power. A stockholder may revoke any proxy which is not irrevocable by attending the meeting and voting in person or by filing an instrument in writing revoking the proxy or by delivering a proxy in accordance with applicable law bearing a later date to the Secretary.

2.16 A proxy or consent validly delivered to the corporation shall mean any written authorization which is signed by the person executing the proxy, as well as any electronic transmission (to include without limitation transmissions by facsimile and by computer messaging systems), which is authorized by a stockholder or the stockholder's attorney in fact, which gives another person or persons power to vote with respect to the shares of such stockholder. A stockholder may authorize another person or persons to act for such stockholder as proxy by transmitting or authorizing the transmission of a telegram, cablegram, or other means of electronic transmission to the person who will be the holder of the proxy or to a proxy solicitation firm, proxy support service organization or like agent duly authorized by the person who will be the holder of the proxy to receive such transmission, provided that any such telegram, cablegram or other means of electronic transmission must either set forth or be submitted with information from which it can be determined that the telegram, cablegram or other electronic transmission was authorized by the stockholder. If it is determined that such telegrams, cablegrams or other electronic transmissions are valid, the inspectors of election or, if there are no inspectors, such other persons making that determination shall specify the information upon which they relied. Any copy, facsimile telecommunication or other reliable reproduction of the writing or transmission created pursuant to this Section may be substituted or used in lieu of the original writing or transmission for any and all purposes for which the original writing or transmission could be used, provided that such copy, facsimile telecommunication or other reproduction shall be a complete reproduction of the entire original writing or transmission.

2.17 Inspectors Of Election. In advance of any meeting of stockholders, the Board of Directors shall appoint inspectors of election to act at such meeting and any adjournment thereof. If inspectors of election are not so appointed, or if any persons so appointed fail to appear or refuse to act, the chairman of any such meeting may, and on the request of any stockholder or stockholder's proxy shall, make such appointment at the meeting. The number of inspectors shall be either one or three. If appointed at a meeting on the request of one or more stockholders or proxies, the majority of shares present shall determine whether one or three inspectors are to be appointed.

2.18 The duties of such inspectors shall include: determining the number of shares outstanding and the voting power of each; determining the shares represented at the meeting; determining the existence of a quorum; determining the authenticity, validity and effect of proxies; receiving votes, ballots or consents; hearing and determining all challenges and questions in any way arising in connection with the right to vote; counting and tabulating all votes or consents; determining when the polls shall close; determining the result; and doing such acts as may be proper to conduct the election or vote with fairness to all stockholders. If there are three inspectors of election, the decision, act or certificate of a majority is effective in all respects as the decision, act or certificate of all.

2.19 Conduct of Meeting. The Chief Executive Officer shall preside as chairman at all meetings of the stockholders. The chairman shall conduct each such meeting in a businesslike and fair manner, but shall not be obligated to follow any technical, formal or parliamentary rules or principles of procedure. The chairman's rulings on procedural matters shall be conclusive and binding on all stockholders, unless at the time of a ruling a request for a vote is made to the stockholders holding shares entitled to vote and which are represented in person or by proxy at the meeting, in which case the decision of a majority of such shares shall be conclusive and binding on all stockholders. Without limiting the generality of the foregoing, the chairman shall have all of the powers usually vested in the chairman of a meeting of stockholders.

2.20 Consent of Absentees. The transactions of any meeting of stockholders, however called and noticed, and wherever held, are as valid as though conducted at a meeting duly held after regular call and notice, if a quorum is present either in person or by proxy, and if, either before or after the meeting, each of the persons entitled to vote, not present in person or by proxy, signs a written waiver of notice, or a consent to the holding of the meeting or an approval of the minutes thereof. All such waivers, consents or approvals shall be filed with the corporate records or made a part of the minutes of the meeting. Attendance of a person at a meeting shall constitute a waiver of notice of and presence at such meeting, except when the person objects, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened and except that attendance at a meeting is not a waiver of any right to object to the consideration of matters required by the General Corporation Law of Delaware to be included in the notice but not so included, if such objection is expressly made at the meeting. Neither the business to be transacted at nor the purpose of any regular or special meeting of stockholders need be specified in any written waiver of notice, consent to the holding of the meeting or approval of the minutes thereof, except as provided in the General Corporation Law of Delaware.

ARTICLE 3 DIRECTORS

3.1 Powers. Subject to limitations of the Certificate of Incorporation, of these Bylaws and of the General Corporation Law of Delaware relating to action required to be approved by the stockholders or by the outstanding shares, the business and affairs of the corporation shall be managed and all corporate powers shall be exercised by or under the direction of the Board of Directors and it shall have the final authority in matters of strategy and policy matters for the corporation.

The Board of Directors may delegate management duties for the operation of the business to those persons to whom authority is properly delegated by the Board of Directors, including officers of the corporation, provided that the business and affairs of the corporation shall be managed and all corporate powers shall be exercised under the ultimate direction of the Board of Directors. Without prejudice to such general powers, but subject to the same limitations, it is hereby expressly declared that the Board of Directors shall have the following powers in addition to the other powers enumerated in these Bylaws:

(A) To select and remove all officers (in accordance with the provisions of these Bylaws), agents and employees of the corporation; prescribe the powers and duties for them as may not be inconsistent with law, the Certificate of Incorporation or these Bylaws; fix their compensation and require from them an affidavit providing for the good faith exercise of their duties only in the best interests of the corporation.

(B) To conduct, manage and control the affairs and business of the corporation and to make such rules and regulations therefor not inconsistent with law, the Certificate of Incorporation or these Bylaws, as they may deem best.

(C) To adopt, make and use a corporate seal, and to prescribe the forms of certificates of stock, and to alter the form of such seal and of such certificates from time to time as they may deem best.

(D) To authorize the issuance of shares of stock of the corporation from time to time, upon such terms and for such consideration as may be lawful.

(E) To borrow money and incur indebtedness for the purposes of the corporation, and to cause to be executed and delivered, in the corporate name, promissory notes, bonds, debentures, deeds of trust, mortgages, pledges, hypothecations or other evidences of debt and securities therefor.

(F) To make, repeal, alter, amend and rescind any or all of these Bylaws.

3.2 Number of Directors. The authorized number of directors of the corporation shall be not less than five nor more than nine. Within such limits, the Board of Directors may fix the exact number of directors by resolution duly adopted by the Board of Directors. No reduction of the authorized number of directors shall have the effect of removing any director prior to the expiration of the director's term of office.

3.3 Election and Term of Office. Only persons who are nominated by, or at the direction of the Board of Directors or the Chairman of the Board, or by a stockholder who has given timely written notice to the Secretary in accordance with these Bylaws, will be eligible for election as directors of the corporation.

3.4 For a person to be qualified to serve as a director of the corporation, such person need not be an employee or stockholder of the corporation during his or her directorship.

3.5 At each annual meeting of the stockholders, the successors of each director whose term expires at that meeting shall be elected to hold office for a term expiring at the next annual meeting of stockholders and until his or her successor shall be elected and shall qualify, subject, however, to prior death, resignation, retirement, disqualification or removal from office.

3.6 Resignations and Vacancies. Any director may resign effective upon giving written notice to the Chairman of the Board, the Chief Executive Officer, the Secretary or the Board of Directors, unless the notice specifies a later time for the effectiveness of such resignation. If the resignation is effective at a future time, a successor may be elected to take office when the resignation becomes effective.

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

A vacancy or vacancies in the Board of Directors shall be deemed to exist in case of the death, resignation or removal of any director, or if the authorized number of directors is increased, or if the stockholders fail, at any annual or special meeting of the stockholders at which any director or directors are elected, to elect the full authorized number of directors to be voted for at that meeting.

Any director, or the entire Board, may be removed only for cause, by the affirmative vote of a majority of the shares then entitled to vote at the election of directors.

3.7 Meetings of the Board of Directors. Regular or special meetings of the Board of Directors shall be held at any place within or without the State of Delaware which has been designated from time to time by the Board of Directors. In the absence of such designation, regular meetings shall be held at the principal executive office of the corporation.

3.8 Following each annual meeting of stockholders, the Board of Directors shall hold a regular meeting for the purpose of organization, election of officers and the transaction of other business. Other regular meetings of the Board of Directors shall be held without call on such dates and at such times as may be fixed by the Board of Directors. Call and notice of all regular meetings of the Board of Directors are hereby dispensed with.

3.9 Special meetings of the Board of Directors for any purpose or purposes may be called at any time by the Chairman of the Board, the Chief Executive Officer, the Secretary or by any two directors.

Special meetings of the Board of Directors shall be held upon four days' written notice or 48 hours' notice given personally or by telephone, including a voice messaging system or other system or technology designed to record and communicate messages, telegraph, telex, facsimile electronic mail or other similar means of communication. Any such notice shall be addressed or delivered to each director at such director's address as it is shown upon the records of the corporation or as may have been given to the corporation by the director for purposes of notice or, if such address is not shown on such records or is not readily ascertainable, at the place in which the meetings of the directors are regularly held.

Notice by mail shall be deemed to have been given at the time a written notice is deposited in the United States mail, first-class postage prepaid. Any other written notice shall be deemed to have been given at the time it is personally delivered to the recipient or is delivered to a common carrier for transmission, or actually transmitted by the person giving the notice by electronic means, to the recipient. Oral notice shall be deemed to have been given at the time it is communicated, in person or by telephone or wireless, to the recipient or to a person at the office of the recipient who the person giving the notice has reason to believe will promptly communicate it to the recipient.

3.10 Quorum. A majority of the whole Board of Directors constitutes a quorum of the Board of Directors for the transaction of business, except to adjourn as provided below in this Article. Every act or decision done or made by a majority of the directors present at a meeting duly held at which a quorum is present shall be regarded as the act of the Board of Directors, unless a greater number be required by law or by the Certificate of Incorporation. A meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of directors, if any action taken is approved by at least a majority of the required quorum for such meeting.

3.11 Participation by Conference Telephone. Any meeting, regular or special, may be held by conference telephone or similar communication equipment, so long as all directors participating in the meeting can hear one another and all such directors shall be deemed to be present in person at the meeting.

3.12 Waiver of Notice. Notice of a meeting need not be given to any director who signs a waiver of notice or a consent to holding the meeting or an approval of the minutes thereof, whether before or after the meeting, or who attends the meeting without protesting, prior thereto or at its commencement, the lack of notice to such director. All such waivers, consents and approvals shall be filed with the corporate records or made a part of the minutes of the meeting.

3.13 Adjournment. A majority of the directors present, whether or not a quorum is present, may adjourn any directors' meeting to another time and place. Notice of the time and place of holding an adjourned meeting need not be given to absent directors if the time and place be fixed at the meeting adjourned, except as provided in the next sentence. If the meeting is adjourned for more than 24 hours, notice of any adjournment to another time or place shall be given prior to the time of the adjourned meeting to the directors who were not present at the time of the adjournment.

3.14 Fees and Compensation. Directors and members of committees may receive such compensation, if any, for their services, and such reimbursement for expenses, as may be fixed or determined by the Board of Directors.

3.15 Action Without Meeting. Any action required or permitted to be taken by the Board of Directors may be taken without a meeting if all members of the Board of Directors shall consent in writing to such action. Such consent or consents shall have the same effect as a unanimous vote of the Board of Directors and shall be filed with the minutes of the proceedings of the Board of Directors.

3.16 Committees. The Board of Directors may appoint one or more committees, each consisting of one or more directors, and delegate to such committees any of the powers and authority of the Board of Directors, except no such committee shall have power or authority in reference to the following:

(A) Approving, adopting or recommending to the stockholders any action or matter expressly required by the General Corporation Law of Delaware to be submitted to the stockholders for approval; or

(B) Adopting, altering, amending or repealing these Bylaws or any of them.

Any such committee must be designated, and the members or alternate members thereof appointed, by resolution adopted by a majority of the authorized number of directors and any such committee may be designated an Executive Committee or by such other name as the Board of Directors shall specify. Alternate members of a committee may replace any absent member at any meeting of the committee. The Board of Directors shall have the power to prescribe the manner in which proceedings of any such committee shall be conducted. In the absence of any such prescription, such committee shall have the power to prescribe the manner in which its proceedings shall be conducted. Unless the Board of Directors or such committee shall otherwise provide, the regular and special meetings and other actions of any such committee shall be governed by the provisions of this Article applicable to meetings and actions of the Board of Directors. Minutes shall be kept of each meeting of each committee.

ARTICLE 4 OFFICERS

4.1 Officers. The officers of the corporation shall be a Chief Executive Officer, a President, a Secretary and a Treasurer. The corporation may also have, at the discretion of the Board of Directors, a Chairman of the Board, one or more Vice Chairmen of the Board, one or more Vice Presidents, one or more Assistant Secretaries, one or more Assistant Treasurers, and such other officers as may be elected or appointed in accordance with the provisions of this Article.

4.2 Election. The officers of the corporation, except such officers as may be elected or appointed in accordance with the provisions of this Article, shall be chosen annually by, and shall serve at the pleasure of, the Board of Directors, and shall hold their respective offices until their resignation, removal, or other disqualification from service, or until their respective successors shall be elected.

4.3 Subordinate Officers. The Board of Directors may elect, and may empower the Chief Executive Officer to appoint, such other officers as the business of the corporation may require, each of whom shall hold office for such period, have such authority and perform such duties as are provided in these Bylaws or as the Board of Directors may from time to time determine.

4.4 Removal and Resignation. Any officer may be removed, either with or without cause, by the Board of Directors at any time or, except in the case of an officer chosen by the Board of Directors, by any officer upon whom such power of removal may be conferred by the Board of Directors. Any such removal shall be without prejudice to the rights, if any, of the officer under any contract of employment of the officer.

Any officer may resign at any time by giving written notice to the corporation, but without prejudice to the rights, if any, of the corporation under any contract to which the officer is a party. Any such resignation shall take effect at the date of the receipt of such notice or at any later time specified therein and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

4.5 Vacancies. A vacancy in any office because of death, resignation, removal, disqualification or any other cause shall be filled in the manner prescribed in these Bylaws for regular election or appointment to such office.

4.6 The Chairman of the Board. The Chairman of the Board, if any, shall preside at all meetings of the Board of Directors and he or she shall have and may exercise such powers as are, from time to time, assigned to him or her by the Board of Directors and as may be provided by law.

4.7 In the absence of the Chairman of the Board, the Vice Chairman of the Board, if any, shall preside at all meetings of the Board of Directors and he or she shall have and may exercise such powers as are, from time to time, assigned to him or her by the Board of Directors and as may be provided by law.

4.8 The Chief Executive Officer, President and Vice-Presidents. Subject to such powers, if any, as may be given by the Board of Directors to the Chairman of the Board, if there be such an officer, the Chief Executive Officer is the general manager and chief executive officer of the corporation and has, subject to the control of the Board of Directors, general supervision, direction and control of the business and officers of the corporation. The Chief Executive Officer shall preside at all meetings of the stockholders and, in the absence of the Chairman of the Board, or if there be none, at all meetings of the Board of Directors. The Chief Executive Officer has the general powers and duties of management usually vested in a chief executive officer and general manager of a corporation and such other powers and duties as may be prescribed by the Board of Directors.

4.9 In the absence or disability of the Chief Executive Officer, the President shall perform all the duties of the Chief Executive Officer and, when so acting, shall have all the powers of, and be subject to all the restrictions upon, the Chief Executive Officer. The President shall have such other powers and perform such other duties as from time to time may be prescribed by the Board of Directors and the Chief Executive Officer.

4.10 In the absence or disability of the President, the Vice Presidents in order of their rank as fixed by the Board of Directors, or, if not ranked, the Vice President designated by the Board of Directors, shall perform all the duties of the President and, when so acting, shall have all the powers of, and be subject to all the restrictions upon, the President. The Vice Presidents shall have such other powers and perform such other duties as from time to time may be prescribed for them respectively by the Board of Directors.

4.11 The Secretary and Assistant Secretary. The Secretary shall keep or cause to be kept, at the principal executive office and such other place as the Board of Directors may order, a book of minutes of all meetings of stockholders, the Board of Directors and its committees, with the time and place of holding, whether regular or special, and if special, how authorized, the notice thereof given, the names of those present at Board of Directors and committee meetings, the number of shares present or represented at stockholders' meetings, and the proceedings thereof. The Secretary shall keep, or cause to be kept, a copy of these Bylaws of the corporation at the principal executive office or such other place as the Board of Directors may order.

The Secretary shall keep, or cause to be kept, at the principal executive office or at the office of the corporation's transfer agent or registrar, if one has been appointed, a share register, or a duplicate share register, showing the names of the stockholders and their addresses, the number and classes of shares held by each, the number and date of certificates issued for the same, and the number and date of cancellation of every certificate surrendered for cancellation.

The Secretary shall give, or cause to be given, notice of all meetings of the stockholders and of the Board of Directors and any committees thereof required by these Bylaws or by law to be given, shall keep the seal of the corporation in safe custody, and shall have such other powers and perform such other duties as may be prescribed by the Board of Directors.

4.12 The Assistant Secretary, or if there be more than one, the Assistant Secretaries in the order determined by the Board of Directors (or if there be no such determination, then in the order of their election) shall, in absence of the Secretary or in the event of his or her inability or refusal to act, perform the duties and exercise the powers of the Secretary and shall perform such other duties and have such other powers as the Board of Directors may from time to time prescribe.

4.13 The Treasurer and Assistant Treasurer. The Treasurer is the chief financial officer of the corporation and shall keep and maintain, or cause to be kept and maintained, adequate and correct accounts of the properties and business transactions of the corporation, and shall send or cause to be sent to the stockholders of the corporation such financial statements and reports as are by law or these Bylaws required to be sent to them. The books of account shall at all times be open to inspection by any director.

The Treasurer shall deposit all moneys and other valuables in the name and to the credit of the corporation with such depositaries as may be designated by the Board of Directors. The Treasurer shall disburse the funds of the corporation as may be ordered by the Board of Directors, shall render to the President and the directors, whenever they request it, an account of all transactions as Treasurer and of the financial condition of the corporation, and shall have such other powers and perform such other duties as may be prescribed by the Board of Directors.

4.14 The Assistant Treasurer, or if there be more than one, the Assistant Treasurers in the order determined by the Board of Directors (or if there be no such determination, then in the order of their election) shall, in absence of the Treasurer or in the event of his or her inability or refusal to act, perform the duties and exercise the powers of the Treasurer and shall perform such other duties and have such other powers as the Board of Directors may from time to time prescribe.

ARTICLE 5 CERTIFICATE OF STOCK

5.1 The corporation's stock may be certificated or uncertificated, as provided under Delaware law, and shall be entered in the books of the corporation and registered as they are issued. Any certificates representing shares of stock shall be in such form as the Board of Directors shall prescribe, certifying the number and class of shares of the stock of the corporation owned by the shareholder. Any certificate issued to any shareholder of the corporation shall bear the name of the corporation and state that it is organized under the laws of the State of Delaware, the name of the shareholder, and the number and class (and the designation of the series, if any) of the shares represented. Each certificate shall be signed either manually or by facsimile, by the Chairman or Vice Chairman of the Board, or the President or a Vice President, and the Treasurer or an Assistant Treasurer, or the Secretary or an Assistant Secretary, certifying the number of shares owned by the holder in the corporation.

Within a reasonable time after the issuance or transfer of uncertificated stock, the corporation shall send to the registered owner thereof a written notice that shall set forth the name of the corporation, that the corporation is organized under the laws of the State of Delaware, the name of the shareholder, the number and class (and the designation of the series, if any) of the shares represented, and any restrictions on the transfer or registration of such shares of stock imposed by the corporation's certificate of incorporation, these bylaws, any agreement among shareholders, or any agreement between shareholders and the corporation.

5.2 Certificates may be issued for partly paid shares and in such case upon the face or back of the certificates issued to represent any such partly paid shares, the total amount of the consideration to be paid therefor, and the amount paid thereon shall be specified.

5.3 If the corporation shall be authorized to issue more than one class of stock or more than one series of any class, the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualification, limitations or restrictions of such preferences and/or rights shall be set forth in full or summarized on the face or back of the certificate which the corporation shall issue to represent such class or series of stock, provided that, except as otherwise provided in Section 202 of the General Corporation Law of Delaware, in lieu of the foregoing requirements, there may be set forth on the face or back of the certificate which the corporation shall issue to represent such class or series of stock, a statement that the corporation will furnish without charge to each stockholder who so requests the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights.

5.4 Any of or all the signatures on the certificate may be facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the corporation with the same effect as if such person were such officer, transfer agent or registrar at the date of issue.

5.5 Lost Certificates. The Board of Directors may direct (i) a new certificate or certificates of stock or (ii) uncertificated shares in place of any certificate or certificates previously issued by the corporation alleged to have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen or destroyed. When authorizing such issue of a new certificate or certificates, or uncertificated shares, the Board of Directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate or certificates, or his or her legal representative, to advertise the same in such manner as it shall required and/or to give the corporation a bond in such sum as it may direct as indemnity against any claim that may be made against the corporation with respect to the certificate alleged to have been lost, stolen or destroyed.

5.6 Transfer of Stock. Upon surrender to the corporation or the transfer agent of the corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignation or authority to transfer, it shall be the duty of the corporation to issue a new certificate or evidence of the issuance of uncertificated shares to the shareholder entitled thereto, cancel the old certificate and record the transaction upon the corporation's books.

5.7 Fixing Record Date. In order that the corporation may determine the stockholders entitled to notice of or to vote at any meeting of the stockholders or any adjournment thereof, or to express consent to corporate action in writing without a meeting, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and which record date: (a) in the case of determination of stockholders entitled to vote at any meeting of stockholders or adjournment thereof, shall, unless otherwise required by law, not be more than 60 nor less than 10 days before the date of such meeting; (b) in the case of determination of stockholders entitled to express consent to corporate action in writing without a meeting, shall not be more than 10 days from the date upon which the resolution fixing the record date is adopted by the Board of Directors and (c) in the case of any other action, shall not be more than 60 days prior to such other action. If no record date is fixed: (a) the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held; (b) the record date for determining stockholders entitled to express consent to corporate action in writing without a meeting, when no prior action of the Board of Directors is required by law or the Certificate of Incorporation, shall be the first date on which a signed written consent setting forth the action taken or proposed to be taken is delivered to the corporation in accordance with applicable law, or, if prior action by the Board of Directors is required by law or the Certificate of Incorporation, shall be at the close of business on the day on which the Board of Directors adopts the resolution taking such prior action and (c) the record date for determining stockholders for any other purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

5.8 Registered Stockholders. The corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, and to hold liable for calls and assessments a person registered on its books as the owner of shares and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Delaware.

ARTICLE 6 GENERAL PROVISIONS

6.1 Maintenance and Inspection of Records. Any stockholder of record, in person or by attorney or other agent, shall, upon written demand under oath stating the purpose thereof, have the right during the usual hours for business to inspect for any proper purpose the corporation's stock ledger, a list of its stockholders, and its other books and records and to make copies or extracts therefrom. A proper purpose shall mean a purpose reasonably related to such person's interest as a stockholder. In every instance where an attorney or other agent is the person who seeks the right to inspection, the demand under oath shall be accompanied by a power of attorney or such other writing that authorizes the attorney or other agent to so act on behalf of the stockholder. The demand under oath shall be directed to the corporation at its registered office in the State of Delaware or at its principal executive office.

6.2 Any director shall have the right to examine the corporation's stock ledger, a list of its stockholders, and its other books and records for a purpose reasonably related to the director's position as a director. The Court of Chancery is hereby vested with the exclusive jurisdiction to determine whether a director is entitled to the inspection sought. The Court may summarily order the corporation to permit the director to inspect any and all books and records, the stock ledger, and the stock list and to make copies or extracts therefrom. The Court may, in its discretion, prescribe any limitations or conditions with reference to the inspection, or award such other and further relief as the Court may deem just and proper.

6.3 Annual Report to Stockholders. At any point at which the corporation has less than 100 holders of record of its shares, this corporation expressly waives the annual report to stockholders. Notwithstanding the waiver of such annual report by the corporation, nothing herein shall be interpreted as prohibiting the Board of Directors from issuing voluntary annual or other periodic reports to stockholders during such time as the corporation has less than 100 holders of record.

6.4 Checks; Drafts; Evidence of Indebtedness. From time to time, the Board of Directors shall determine by resolution which person or persons may sign or endorse all checks, drafts, other orders for the payment of money, notes or other evidences of indebtedness that are issued in the name of or payable to the corporation, and only the persons so authorized shall sign or endorse those instruments.

6.5 Endorsement of Documents; Contracts. Subject to the provisions of applicable law, any note, mortgage, evidence of indebtedness, contract, share certificate, conveyance or other instrument in writing and any assignment or endorsements thereof executed or entered into between the corporation and any other person, when signed by the Chairman of the Board, the Chief Executive Officer, the President or any Vice President and the Secretary, any Assistant Secretary, the Treasurer or any Assistant Treasurer of the corporation shall be valid and binding on the corporation in the absence of actual knowledge on the part of the other person that the signing officers had no authority to execute the same. Any such instruments may be signed by any other person or persons and in such manner as from time to time shall be determined by the Board of Directors, and, unless so authorized by the Board of Directors, no officer, agent or employee shall have any power or authority to bind the corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or amount.

6.6 Representation of Shares of Other Corporations. The Chief Executive Officer or any other officer or officers authorized by the Board of Directors or the Chief Executive Officer are each authorized to vote, represent and exercise on behalf of the corporation all rights incident to any and all shares of any other corporation or corporations standing in the name of the corporation. The authority herein granted may be exercised either by any such officer in person or by any other person authorized so to do by proxy or power of attorney duly executed by said officer.

6.7 Stock Purchase Plans. The corporation may adopt and carry out a stock purchase plan or agreement or stock option plan or agreement providing for the issue and sale for such consideration as may be fixed of its unissued shares, or of issued shares acquired or to be acquired, to one or more of the employees or directors of the corporation or of a subsidiary or to a trustee on their behalf and for the payment for such shares in installments or at one time, and may provide for aiding any such persons in paying for such shares by compensation for services rendered, promissory notes or otherwise.

Any such stock purchase plan or agreement or stock option plan or agreement may include, among other features, the fixing of eligibility for participation therein, the class and price of shares to be issued or sold under the plan or agreement, the number of shares which may be subscribed for, the method of payment therefor, the reservation of title until full payment therefor, the effect of the termination of employment, an option or obligation on the part of the corporation to repurchase the shares upon termination of employment, restrictions upon transfer of the shares, the time limits of and termination of the plan, and any other matters, not in violation of applicable law, as may be included in the plan as approved or authorized by the Board of Directors or any committee of the Board of Directors.

6.8 Construction and Definitions. Unless the context otherwise requires, the general provisions, rules of construction and definitions contained in the General Corporation Law of Delaware shall govern the construction of these Bylaws.

6.9 Amendments. These Bylaws may be amended or repealed either by approval of 66 2/3% of the outstanding shares of the corporation entitled to vote on such action or by the approval of the Board of Directors, for those amendments to the Bylaws for which approval of the Board of Directors alone is sufficient under the General Corporation Law of Delaware.

6.10 Fiscal Year. The fiscal year of the corporation shall be fixed by resolution of the Board of Directors.

6.11 Dividends. Dividends upon the capital stock of the corporation, subject to the provisions of the Certificate of Incorporation, if any, may be declared by the Board of Directors at any regular or special meeting, pursuant to law. Dividends may be paid in cash, in property, or in shares of the capital stock, subject to the provisions of the Certificate of Incorporation.

6.12 Before payment of any dividend, there may be set aside out of any funds of the corporation available for dividends such sum or sums as the directors from time to time, in their absolute discretion, think proper as a reserve or reserves to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the corporation, or for such other purposes as the directors shall think conducive to the interest of the corporation, and the directors may modify or abolish any such reserve in the manner in which it was created.

6.13 Loans to Officers and Employees. The corporation may lend money to, or guarantee any obligation of, or otherwise assist any officer or other employee of the corporation or of its subsidiaries, including any officer or employee who is a director of the corporation or its subsidiaries, whenever, in the judgment of the Board of Directors, such loan, guarantee or assistance may reasonably be expected to benefit the corporation. The loan, guarantee or other assistance may be with or without interest and may be unsecured, or secured in such manner as the Board of Directors shall approve, including, without limitation, a pledge of shares of stock of the corporation. Nothing in these Bylaws shall be deemed to deny, limit or restrict the powers of guaranty or warranty of the corporation at common law or under any statute.

6.14 Forum for Adjudication of Disputes. Unless the corporation consents in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware (or, if and only if the Court of Chancery of the State of Delaware lacks subject matter jurisdiction, any state or federal court located within the State of Delaware) shall be the sole and exclusive forum for: (a) any derivative action or proceeding brought on behalf of the corporation, (b) any action or proceeding asserting a claim of breach of a fiduciary duty owed by any director, officer or other employee of the corporation to the corporation or the corporation's stockholders, (c) any action or proceeding asserting a claim against the corporation or any director, officer or other employee of the corporation arising pursuant to, or seeking to enforce any right or remedy under, any provision of the Delaware General Corporation Law, the corporation's Certificate of Incorporation or these Bylaws (in each case, as they may be amended and restated from time to time), (d) any action or proceeding asserting a claim against the corporation or any director, officer or other employee of the corporation governed by the internal affairs doctrine, or (e) any action or proceeding to interpret, apply, enforce, or determine the validity of any provision or provisions of the corporation's Certificate of Incorporation or these Bylaws (in each case, as they may be amended and restated from time to time), in all cases to the full extent permitted by applicable law and subject to the court's having personal jurisdiction over the indispensable parties named as defendants. Any person or entity purchasing, otherwise acquiring, or continuing to own any interest in shares of capital stock of the corporation shall be deemed to have notice of and consented to the provisions of this Section."

Section 6.15. Federal Forum Selection. Unless the corporation consents in writing to the selection of an alternative forum, the federal district courts of the United States of America shall be the sole and exclusive forum for the resolution of any complaint asserting a cause of action arising under the Securities Act of 1933, as amended. Any person or entity purchasing, otherwise acquiring, or continuing to own any interest in shares of capital stock of the corporation shall be deemed to have notice of and consented to this provisions of this Section.

ARTICLE 7 INDEMNIFICATION

7.1 Right to Indemnification. The corporation shall indemnify and hold harmless, to the fullest extent permitted by applicable law as it presently exists or may hereafter be amended, any person (an "INDEMNITEE") who was or is made or is threatened to be made a party or is otherwise involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative (a "PROCEEDING"), by reason of the fact that such person, or a person for whom he or she is the legal representative, is or was a director or officer of the corporation or, while a director or officer of the corporation, is or was serving at the written request of the corporation as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust, enterprise or non-profit entity, including service with respect to employee benefit plans, against all liability and loss suffered and expenses (including attorneys' fees) reasonably incurred by such Indemnitee. Notwithstanding the preceding sentence, except as otherwise provided in Section 7.3, the corporation shall be required to indemnify an Indemnitee in connection with a proceeding (or part thereof) commenced by such Indemnitee only if the commencement of such proceeding (or part thereof) by the Indemnitee was authorized by the Board of Directors.

7.2 Prepayment of Expenses. The corporation shall pay the expenses (including attorneys' fees) incurred by an Indemnitee in defending any proceeding in advance of its final disposition, PROVIDED, HOWEVER, that, to the extent required by law, such payment of expenses in advance of the final disposition of the proceeding shall be made only upon receipt of an undertaking by the Indemnitee to repay all amounts advanced if it should be ultimately determined that the Indemnitee is not entitled to be indemnified under this Article or otherwise.

7.3 Claims. If a claim for indemnification or advancement of expenses under this Article is not paid in full within 60 days after a written claim therefor by the Indemnitee has been received by the corporation, the Indemnitee may file suit to recover the unpaid amount of such claim and, if successful in whole or in part, shall be entitled to be paid the expense of prosecuting such claim. In any such action the corporation shall have the burden of proving that the Indemnitee is not entitled to the requested indemnification or advancement of expenses under applicable law.

7.4 Nonexclusivity of Rights. The rights conferred on any Indemnitee by this Article shall not be exclusive of any other rights which such Indemnitee may have or hereafter acquire under any statute, provision of the Certificate of Incorporation, these Bylaws, agreement, vote of the stockholders or disinterested directors or otherwise.

7.5 Other Sources. The corporation's obligation, if any, to indemnify or to advance expenses to any Indemnitee who was or is serving at its request as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, enterprise or non-profit entity shall be reduced by any amount such Indemnitee may collect as indemnification or advancement of expenses from such other corporation, partnership, joint venture, trust, enterprise or non-profit entity.

7.6 Amendment or Repeal. Any repeal or modification of the foregoing provisions of this Article shall not adversely affect any right or protection hereunder of any Indemnitee in respect of any act or omission occurring prior to the time of such repeal or modification.

7.7 Other Indemnification and Prepayment of Expenses. This Article shall not limit the right of the corporation, to the extent and in the manner permitted by law, to indemnify and to advance expenses to persons other than Indemnitees when and as authorized by appropriate corporate action.

7.8 Insurance. The corporation may maintain insurance, at its expense, to protect itself and any director, officer, employee or agent of the corporation or another corporation, partnership, joint venture, trust or other enterprise against any expense, liability or loss, whether or not the corporation would have the power to indemnify such person against such expense, liability or loss under the law.

7.9 Indemnity Agreements. The corporation may enter into agreements with any director, officer, employee or agent of the corporation, providing for indemnification to the fullest extent permissible under the law and the Certificate of Incorporation.

**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: August 10, 2020

/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, Richard Rosenstein, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Acacia Research Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a). Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b). Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c). Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d). Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a). All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b). Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 10, 2020

_____/s/ Richard Rosenstein

Richard Rosenstein

Chief Financial Officer

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

In connection with the Quarterly Report of Acacia Research Corporation (the "Company") on Form 10-Q for the quarterly period ended June 30, 2020, as filed with the Securities and Exchange Commission on August 10, 2020 (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: August 10, 2020

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 June 30, 2020, as filed with the Securities and Exchange Commission on August 10, 2020 (the "Report"), I, Richard Rosenstein, Chief Financial 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: August 10, 2020

By: /s/ Richard Rosenstein

Richard Rosenstein
Chief Financial 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.