

ACACIA RESEARCH CORP  
Form 10-Q  
May 09, 2016

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

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FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2016

or

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

FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_

Commission File Number: 0-26068

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(Exact name of registrant as specified in its charter)

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DELAWARE                      95-4405754  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)  
520 Newport Center Drive, Newport Beach, California 92660  
(Address of principal executive offices, Zip Code)

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

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes    No

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

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

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

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

As of May 6, 2016, 50,397,502 shares of the registrant's common stock, \$0.001 par value, were issued and outstanding.

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## PART I--FINANCIAL INFORMATION

## Item 1. FINANCIAL STATEMENTS

ACACIA RESEARCH CORPORATION  
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share information)

(Unaudited)

	March 31, 2016	December 31, 2015
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 145,329	\$ 135,223
Restricted cash	11,523	10,725
Accounts receivable	25,175	33,500
Deferred income taxes	210	210
Prepaid expenses and other current assets	4,352	4,219
Total current assets	186,589	183,877
Property and equipment, net	231	272
Patents, net	151,882	162,642
Other assets	1,111	1,110
	\$ 339,813	\$ 347,901
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 14,580	\$ 17,347
Accrued patent investment costs	—	1,000
Royalties and contingent legal fees payable	18,618	14,878
Total current liabilities	33,198	33,225
Deferred income taxes	210	210
Other liabilities	345	311
Total liabilities	33,753	33,746
Commitments and contingencies (Note 5)		
Stockholders' equity:		
Preferred stock, par value \$0.001 per share; 10,000,000 shares authorized; no shares issued or outstanding	—	—
Common stock, par value \$0.001 per share; 100,000,000 shares authorized; 50,458,905 and 50,651,239 shares issued and outstanding as of March 31, 2016 and December 31, 2015, respectively	50	51
Treasury stock, at cost, 1,729,408 shares as of March 31, 2016 and December 31, 2015	(34,640 )	(34,640 )
Additional paid-in capital	634,882	633,146
Accumulated comprehensive loss	(148 )	(215 )
Accumulated deficit	(298,096 )	(288,131 )
Total Acacia Research Corporation stockholders' equity	302,048	310,211
Noncontrolling interests in operating subsidiaries	4,012	3,944
Total stockholders' equity	306,060	314,155
	\$ 339,813	\$ 347,901

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

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

	Three Months Ended March 31,	
	2016	2015
Revenues	\$24,721	\$34,210
Operating costs and expenses:		
Cost of revenues:		
Inventor royalties	1,573	9,325
Contingent legal fees	4,109	4,784
Litigation and licensing expenses - patents	7,723	8,675
Amortization of patents	10,760	13,038
General and administrative expenses (including non-cash stock compensation expense of \$1,735 for the three months ended March 31, 2016 and \$3,247 for the three months ended March 31, 2015, respectively)	7,994	10,575
Research, consulting and other expenses - business development	522	997
Other	1,742	426
Total operating costs and expenses	34,423	47,820
Operating loss	(9,702 )	(13,610 )
Total other income (expense)	(3 )	228
Loss before provision for income taxes	(9,705 )	(13,382 )
Provision for income taxes	(192 )	(170 )
Loss including noncontrolling interests in operating subsidiaries	(9,897 )	(13,552 )
Net (income) loss attributable to noncontrolling interests in operating subsidiaries	(68 )	422
Net loss attributable to Acacia Research Corporation	\$(9,965 )	\$(13,130 )
Net loss attributable to common stockholders - basic and diluted	\$(9,965 )	\$(13,345 )
Basic and diluted loss per common share	\$(0.20 )	\$(0.27 )
Weighted average number of shares outstanding - basic and diluted	49,925,550	49,212,207
Cash dividends declared per common share	\$—	\$0.125

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

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

	Three Months Ended March 31,	
	2016	2015
Net loss including noncontrolling interests in operating subsidiaries	\$(9,897)	\$(13,552)
Other comprehensive income (loss):		
Unrealized loss on short-term investments, net of tax of \$0	—	(143 )
Unrealized loss on foreign currency translation, net of tax of \$0	67	(28 )
Reclassification adjustment for losses included in net loss	—	84
Total other comprehensive loss	(9,830 )	(13,639 )
Comprehensive (income) loss attributable to noncontrolling interests	(68 )	422
Comprehensive loss attributable to Acacia Research Corporation	\$(9,898)	\$(13,217)



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

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ACACIA RESEARCH CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three Months Ended March 31,	
	2016	2015
Cash flows from operating activities:		
Net loss including noncontrolling interests in operating subsidiaries	\$(9,897 )	\$(13,552 )
Adjustments to reconcile net loss including noncontrolling interests in operating subsidiaries to net cash provided by (used in) operating activities:		
Depreciation and amortization	10,803	13,101
Non-cash stock compensation	1,735	3,247
Other	69	(12 )
Changes in assets and liabilities:		
Restricted cash	(798 )	(10,718 )
Accounts receivable	8,325	(9,839 )
Prepaid expenses and other assets	(134 )	(702 )
Accounts payable and accrued expenses	(2,733 )	(2,133 )
Royalties and contingent legal fees payable	3,740	4,778
Net cash provided by (used in) operating activities	11,110	(15,830 )
Cash flows from investing activities:		
Investments in patents/ patent rights	(1,000 )	(16,861 )
Purchases of property and equipment	(4 )	—
Purchases of available-for-sale investments	—	(13,369 )
Maturities and sales of available-for-sale investments	—	18,579
Net cash used in investing activities	(1,004 )	(11,651 )
Cash flows from financing activities:		
Dividends paid to stockholders	—	(6,375 )
Proceeds from exercises of stock options	—	938
Net cash used in financing activities	—	(5,437 )
Increase (decrease) in cash and cash equivalents	10,106	(32,918 )
Cash and cash equivalents, beginning	135,223	134,466
Cash and cash equivalents, ending	\$145,329	\$101,548
Supplemental schedule of noncash investing activities:		
Patent acquisition costs included in accrued patent acquisition costs	\$—	\$900

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

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ACACIA RESEARCH CORPORATION  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Description of Business. As used herein, “Acacia” and the “Company” refer to Acacia Research Corporation and/or its wholly and majority-owned and controlled operating subsidiaries, and/or where applicable, its management. All patent investment, prosecution, licensing and enforcement activities are conducted solely by certain of Acacia’s wholly and majority-owned and controlled operating subsidiaries.

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. Acacia is an intermediary in the patent marketplace, bridging the gap between invention and application, facilitating efficiency and delivering monetary rewards to patent owners.

Acacia’s operating subsidiaries generate revenues and related cash flows from the granting of intellectual property 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.

Basis of Presentation. The accompanying 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. Noncontrolling interests in Acacia’s majority-owned and controlled operating subsidiaries (“noncontrolling interests”) are separately presented as a component of stockholders’ equity in the consolidated statements of financial position for the applicable periods presented. Consolidated net loss is adjusted to include the net (income) loss attributed to noncontrolling interests in the consolidated statements of operations. Refer to the accompanying consolidated financial statements for total noncontrolling interests, net (income) loss attributable to noncontrolling interests and contributions from and distributions to noncontrolling interests, for the applicable periods presented.

A wholly owned subsidiary of Acacia is the general partner of the Acacia Intellectual Property Fund, L.P. (the “Acacia IP Fund”), which was formed in August 2010. The Acacia IP Fund is included in the Company’s consolidated financial statements for the periods presented because Acacia’s wholly owned subsidiary, which is the majority owner and general partner, has the ability to control the operations and activities of the Acacia IP Fund.

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“US 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 accounting principles generally accepted in the United States of America in annual financial statements have been omitted or condensed in accordance with quarterly reporting requirements of the Securities and Exchange Commission (“SEC”). These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2015, as reported by Acacia in its

Annual Report on Form 10-K filed with the SEC. The year end consolidated balance sheet data was derived from audited financial statements but does not include all disclosures required by accounting principles generally accepted in the United States of America.

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 March 31, 2016, and results of its operations and its cash flows for the interim periods presented. The consolidated results of operations for the three months ended March 31, 2016 are not necessarily indicative of the results to be expected for the entire fiscal year.

ACACIA RESEARCH CORPORATION  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Revenue Recognition.** Revenue is recognized when (i) persuasive evidence of an arrangement exists, (ii) all obligations have been substantially performed pursuant to the terms of the arrangement, (iii) amounts are fixed or determinable, and (iv) the collectibility of amounts is reasonably assured.

In general, revenue arrangements provide for the payment of contractually determined fees in consideration for the grant of certain intellectual property rights for patented technologies owned or controlled by Acacia's operating subsidiaries. These rights typically include some combination of the following: (i) the grant of a non-exclusive, retroactive and future license to manufacture and/or sell products covered by patented technologies owned or controlled by Acacia's operating subsidiaries, (ii) a covenant-not-to-sue, (iii) the release of the licensee from certain claims, and (iv) the dismissal of any pending litigation. The intellectual property rights granted may be perpetual in nature, extending until the expiration of the related patents, or can be granted for a defined, relatively short period of time, with the licensee possessing the right to renew the agreement at the end of each contractual term for an additional minimum upfront payment. Pursuant to the terms of these agreements, Acacia's operating subsidiaries have no further obligation with respect to the grant of the non-exclusive retroactive and future licenses, covenants-not-to-sue, releases, and other deliverables, including no express or implied obligation on Acacia's operating subsidiaries' part to maintain or upgrade the technology, or provide future support or services. Generally, the agreements provide for the grant of the licenses, covenants-not-to-sue, releases, and other significant deliverables upon execution of the agreement, or upon receipt of the minimum upfront payment for term agreement renewals. As such, the earnings process is complete and revenue is recognized upon the execution of the agreement, when collectibility is reasonably assured, or upon receipt of the minimum upfront fee for term agreement renewals, and when all other revenue recognition criteria have been met.

For the periods presented herein, the majority of the revenue agreements executed by the Company provided for the payment of one-time, paid-up license fees in consideration for the grant of certain intellectual property rights for patented technology rights owned by Acacia's operating subsidiaries. These rights were primarily granted on a perpetual basis, extending until the expiration of the underlying patents.

**Cost of Revenues.** Cost of revenues include the costs and expenses incurred in connection with Acacia's patent licensing and enforcement activities, including inventor royalties paid to original 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 "Cost of revenues" in the accompanying consolidated statements of operations.

**Inventor Royalties and Contingent Legal Expenses.** Inventor royalties are expensed in the 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 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 consolidated statements of operations.

Contingent legal fees are expensed in the 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.

Use of Estimates. The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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, stock-based compensation expense, impairment of marketable securities and intangible assets including goodwill, the determination of the economic useful life of amortizable intangible assets, income taxes and valuation allowances against net deferred tax assets and the application of the acquisition method of accounting for business combinations, require its most difficult, subjective or complex judgments.

ACACIA RESEARCH CORPORATION  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Concentrations. Four licensees individually accounted for 22%, 19%, 16% and 11% of revenues recognized during the three months ended March 31, 2016, and two licensees individually accounted for 58% and 15% of revenues recognized during the three months ended March 31, 2015. For the three months ended March 31, 2016 and 2015, 25% and 62%, respectively, of revenues were attributable to licensees domiciled in foreign jurisdictions, based on the jurisdiction of the entity obligated to satisfy payment obligations pursuant to the applicable revenue arrangement. The Company does not have any material foreign operations.

Three licensees individually represented approximately 48%, 22% and 15% of accounts receivable at March 31, 2016. Two licensees individually represented approximately 72% and 21% of accounts receivable at December 31, 2015.

Stock-Based Compensation. The compensation cost for 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 (the vesting period of the equity award) which is two to four years. The fair value of each option award is estimated on the date of grant using a Black-Scholes option valuation model. 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. Stock-based compensation expense is recorded only for those awards expected to vest using an estimated forfeiture rate.

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:

Level 1 - Observable Inputs: Quoted prices in active markets for identical investments;

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

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.

Patents. Patents include the cost of patents or patent rights (hereinafter, collectively "patents") acquired from third-parties or obtained in connection with business combinations. Capitalized patent costs are amortized utilizing the straight-line method over their remaining economic useful lives, ranging from one to eight years. Certain patent application and prosecution costs incurred to secure additional patent claims, that based on management's estimates are deemed to be recoverable, are capitalized and amortized over the remaining estimated economic useful life of the related patent portfolio.

Impairment of Long-lived Assets. Acacia reviews long-lived assets and intangible assets for potential impairment annually (quarterly for patents) and when events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. In the event the expected undiscounted future cash flows resulting from the use of the asset is less than the carrying amount of the asset, an impairment loss is recorded equal to the excess of the asset's carrying value over its fair value. If an asset is determined to be impaired, the loss is measured based on quoted market prices in active markets, if available. If quoted market prices are not available or not indicative of current fair value, the estimate of fair value is based on various valuation techniques, including a discounted value of estimated future cash flows.



Fair value is generally estimated using the “Income Approach,” focusing on the estimated future net income-producing capability of the patent portfolios over the 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.

## ACACIA RESEARCH CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**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 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 realizability 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 for the three months ended March 31, 2016 and 2015, were 2% and 1%, respectively. The effective rates for the periods presented primarily reflect the impact of foreign withholding taxes related to certain revenue agreements executed with third party licensees domiciled in foreign jurisdictions, and valuation allowances recorded for foreign withholding tax credits and net operating loss related tax assets generated during the periods.

### 3. INCOME (LOSS) PER SHARE

The Company computes net income (loss) attributable to common stockholders using the two-class method required for capital structures that include participating securities. Under the two-class method, securities that participate in non-forfeitable dividends, such as the Company's outstanding unvested restricted stock, are considered "participating securities."

In applying the two-class method, (i) basic net income (loss) per share is computed by dividing net income (loss) (less any dividends paid on participating securities) by the weighted average number of shares of common stock and participating securities outstanding for the period and (ii) diluted earnings per share may include the additional effect of other securities, if dilutive, in which case the dilutive effect of such securities is calculated by applying the two-class method and the treasury stock method to the assumed exercise or vesting of potentially dilutive common shares. The method yielding the more dilutive result is ultimately reported for the applicable period. Potentially dilutive common stock equivalents primarily consist of employee stock options, and restricted stock units for calculations utilizing the two-class method, and also include unvested restricted stock, when utilizing the treasury method.

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

	Three Months Ended March 31,	
	2016	2015
Numerator (in thousands):		
Basic and Diluted		
Net loss	\$(9,965)	\$(13,130 )
Total dividends declared / paid	—	(6,375 )
Dividends attributable to common stockholders	—	6,160
Net loss attributable to common stockholders – basic and diluted	\$(9,965)	\$(13,345 )

Denominator:

Weighted-average shares used in computing net loss per share attributable to common stockholders – basic and diluted	49,925,550	<del>9,212,207</del>
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Basic and diluted net loss per common share	\$(0.20 )	\$(0.27 )
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Anti-dilutive equity-based incentive awards excluded from the computation of diluted loss per share	2,350,445	71,468
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## ACACIA RESEARCH CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

## 4. PATENTS

Acacia's only identifiable intangible assets at March 31, 2016 and December 31, 2015 are patents and patent rights. Patent-related accumulated amortization totaled \$292,255,000 and \$281,495,000 as of March 31, 2016 and December 31, 2015, respectively.

Acacia's patents have remaining estimated economic useful lives ranging from one to eight years. The weighted-average remaining estimated economic useful life of Acacia's patents is approximately five years. The following table presents the scheduled annual aggregate amortization expense as of March 31, 2016 (in thousands):  
For the years ending December 31,

Remainder of 2016	\$ 32,484
2017	40,561
2018	35,765
2019	19,412
2020	6,787
Thereafter	16,873
	\$ 151,882

For the three months ended March 31, 2016 and 2015, Acacia paid patent related investment costs, including up-front patent portfolio advances and previously accrued milestone payments related to patent related investments made in prior periods, totaling \$1,000,000 and \$16,861,000, respectively. The underlying patents have estimated economic useful lives of approximately five to ten years. Included in net additions to capitalized patent costs during the three months ended March 31, 2015 are accrued patent investment costs totaling \$900,000, which are amortized over the estimated economic useful life of the related patents.

## 5. COMMITMENTS AND CONTINGENCIES

## Bank Guarantee

In March 2015, an operating subsidiary of Acacia entered into a standby letter of credit and guarantee arrangement ("Guarantee") with a bank for purposes of enforcing a court ruling in a German patent court granting an injunction against the defendants in the related patent infringement case. An injunction is an equitable remedy in the form of a court order that compels the defendant(s) to cease marketing, offering for sale or importing applicable infringing products into applicable jurisdiction(s). Under German law, in order to enforce the injunction granted by the court, a Guarantee is required to be furnished by the operating subsidiary, the plaintiff in the case, for potential payment to the defendants of any applicable claims which may be incurred by the defendants as a result of the enforcement of the injunction, only in the event that the aforementioned court ruling is subsequently successfully appealed by the defendants or otherwise amended. The Guarantee is required to be issued unlimited with respect to time, until appropriately extinguished in accordance with German law. The Guarantee will be extinguished when a relevant extinguishment order by the court having jurisdiction takes effect, typically occurring when the related infringement case has been settled or a final non-appealable decision has been issued by the court.

The Guarantee is secured by a cash deposit at the contracting bank, which is classified as restricted cash in the accompanying balance sheets, totaling \$11,523,000 and \$10,725,000 as of March 31, 2016 and December 31, 2015, respectively. Changes in the balance are primarily a result of foreign currency exchange rate fluctuations and the related impact on the underlying collateral, which is denominated in U.S. dollars. The Guarantee expires on April 10, 2017, however, it is automatically extended without amendment for a period of one (1) year from the present or any future expiration date, unless at least 30 days prior to any expiration date, the Guarantee is extinguished in accordance with German law. The Guarantee facility fee is 1.15% per year, and the related expense is included in the consolidated

statement of operations.

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

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ACACIA RESEARCH CORPORATION  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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.

For the three months ended March 31, 2016 and 2015, other operating expenses were \$1,742,000 and \$426,000, respectively. Other operating expenses includes expense accruals for court ordered attorney's fees and settlement and contingency accruals for other matters.

#### Other

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 consolidated financial position, results of operations or cash flows.

## 6. STOCKHOLDERS' EQUITY

**Cash Dividends.** The Company paid quarterly cash dividends totaling \$6,375,000 during the three months ended March 31, 2015 in the amount of \$0.125 per share. On February 25, 2016, Acacia announced that its Board of Directors terminated the company's dividend policy effective February 23, 2016. The Board of Directors terminated the dividend policy due to a number of factors, including the Company's financial performance and its available cash resources, the Company's cash requirements and alternative uses of capital that the Board of Directors concluded would represent an opportunity to generate a greater return on investment for the Company and its stockholders.

**Tax Benefits Preservation Plan.** On March 15, 2016, Acacia's Board of Directors announced that it unanimously approved the adoption of a Tax Benefits Preservation Plan (the "Plan"). The purpose of the Plan is to protect the Company's ability to utilize potential tax assets, such as net operating loss carryforwards ("NOLs") 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 any (i) person or group from acquiring beneficial ownership of 4.9% or more of the Company's outstanding common stock and (ii) any existing shareholders 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, under the plan, for each outstanding share of the Company's common stock to shareholders of record at the close of business on March 16, 2016.

## 7. RECENT ACCOUNTING PRONOUNCEMENTS

Recent Accounting Pronouncements - Not Yet Adopted.

In June 2014, the Financial Accounting Standards Board (the "FASB") issued a new accounting standard which requires that a performance target that affects vesting and could be achieved after the requisite service period shall be treated as a performance condition. Adoption of this standard is required for annual periods beginning after December 15, 2015. Early adoption is permitted. The Company is currently evaluating the impact the pronouncement will have on its

consolidated financial statements and related disclosures.

In May 2014, the FASB issued a new accounting standards update addressing revenue from contracts with customers, which clarifies existing accounting literature relating to how and when a company recognizes revenue. Under the standard, a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods and services.

The amendments for this standard update are effective for interim and annual reporting periods beginning after December 15, 2017, and are to be applied

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ACACIA RESEARCH CORPORATION  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

retrospectively or the cumulative effect as of the date of adoption, with early application not permitted. The Company is currently evaluating the impact and method of adoption the pronouncement will have on its consolidated financial statements and related disclosures.

In August 2014, the FASB issued a new accounting standard which requires management to assess an entity's ability to continue as a going concern every reporting period including interim periods, and to provide related footnote disclosure in certain circumstances. Adoption of this standard is required for annual periods beginning after December 15, 2016 and are to be applied retrospectively or the cumulative effect as of the date of adoption. Early adoption is permitted. The Company is currently evaluating the impact the pronouncement will have on its consolidated financial statements and related disclosures.

In September 2015, the FASB issued an accounting standard update to simplify the accounting for measurement-period adjustments in a business combination by requiring the acquirer to recognize adjustments to provisional amounts identified during the measurement period in the reporting period in which the adjustments are determined. The acquirer is also required to record in the reporting period in which the adjustments are determined the effect on earnings of changes in depreciation, amortization, and other items resulting from the change to the provisional amounts. The new guidance is effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. Management is currently evaluating the effect that implementation of this update will have on its consolidated financial position and results of operations upon adoption.

In November 2015, the FASB issued an accounting standard update to simplify the presentation of deferred income taxes by requiring that deferred tax liabilities and assets be classified as noncurrent on the balance sheet. This update is effective for annual reporting periods beginning after December 31, 2016, including interim periods within those annual periods, and early adoption is permitted. Management does not expect the adoption of this standard to have a material impact on the Company's consolidated financial statements and related disclosures.

In February 2016, the FASB issued an accounting standard update which requires lessees to recognize most leases on the balance sheet. This is expected to increase both reported assets and liabilities. The new lease standard does not substantially change lessor accounting. For public companies, the standard will be effective for the first interim reporting period within annual periods beginning after December 15, 2018, although early adoption is permitted. Lessees and lessors will be required to apply the new standard at the beginning of the earliest period presented in the financial statements in which they first apply the new guidance, using a modified retrospective transition method. The requirements of this standard include a significant increase in required disclosures. Management is currently assessing the impact that adopting this new accounting guidance will have on its financial statements and footnote disclosures.

In March 2016, the FASB issued a new standard that changes the accounting for certain aspects of share-based payments to employees. The new guidance requires all income tax effects of awards to be recognized in the income statement when the awards vest or are settled. It also allows an employer to repurchase more of an employee's shares than it can today for tax withholding purposes without triggering liability accounting and to make a policy election for forfeitures as they occur. The guidance is effective for public business entities for fiscal years beginning after December 15, 2016, and interim periods within those years. Early adoption is permitted. Management is currently assessing the impact that adopting this new accounting guidance will have on its financial statements and footnote disclosures.



## Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Cautionary Statement Regarding Forward Looking Statements

You should read the following discussion and analysis in conjunction with the consolidated financial statements and related notes thereto contained in Part I, Item 1 of this Quarterly Report on Form 10-Q. 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 Securities and Exchange Commission, or the SEC, including our Annual Report on Form 10-K for the year ended December 31, 2015, filed with the SEC on March 15, 2016.

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and concern matters that involve risks and uncertainties that could cause actual results to differ materially from those projected in the forward-looking statements. Reference is made in particular to the description of our plans and objectives for future operations, assumptions underlying such plans and objectives, and other forward-looking statements set forth under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and other sections of this Quarterly Report on Form 10-Q. Such statements may be identified by the use of forward-looking terminology such as "may," "will," "should," "could," "expect," "plan," "believe," "estimate," "anticipate," "intend," "predict," "potential," "continue" or similar terms, variations of such terms or the negative of such terms, although not all forward-looking statements contain these terms. Such statements are based on management's current expectations and are subject to a number of factors and uncertainties, which could cause actual results to differ materially from those described in the forward-looking statements. Such statements address future events and conditions concerning intellectual property acquisition and development, licensing and enforcement activities, capital expenditures, earnings, litigation, regulatory matters, markets for our services, liquidity and capital resources and accounting matters. Actual results in each case could differ materially from those anticipated in such statements by reason of factors such as our ability to invest in new technologies and patents, future global economic conditions, changes in demand for our services, legislative, regulatory and competitive developments in markets in which we and our subsidiaries operate, results of litigation and other circumstances affecting anticipated revenues and costs. We expressly disclaim any intent, obligation or undertaking to update or revise any forward-looking statements contained herein to conform such statements to actual results or to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. Readers are urged to carefully review and consider the various disclosures made by us, which attempt to advise interested parties of the risks, uncertainties, and other factors that affect our business, including without limitation the disclosures made under the captions "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Financial Statements" in this Quarterly Report on Form 10-Q and the audited consolidated financial statements and notes thereto and disclosures made under the captions "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Risk Factors" and "Financial Statements and Supplementary Data" included in our Annual Report on Form 10-K for the year ended December 31, 2015.

### 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 intellectual property acquisition, development, licensing and enforcement activities are conducted solely by certain of Acacia Research Corporation's wholly and majority-owned and controlled operating subsidiaries.

Our operating subsidiaries invest in, license and enforce patented technologies. Our operating subsidiaries 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 are an intermediary in the patent marketplace, bridging the gap between invention and application, facilitating efficiency and delivering monetary rewards to patent owners.

Our operating subsidiaries generate revenues and related cash flows from the granting of intellectual property rights for the use of patented technologies that our operating subsidiaries control or own. Our 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.

We are a leader in patent licensing and enforcement and our operating subsidiaries have established a proven track record of licensing success with more than 1,500 license agreements executed to date, across 186 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 wide variety of industries. To date, we have generated gross licensing revenue of approximately \$1.3 billion, and have returned more than \$705 million to our patent partners.

#### Executive Summary

We continued our business of empowering patent owners and rewarding invention by providing a path to patent monetization for the people and companies who have contributed valuable patented inventions to an industry, but who require a professional, experienced independent third-party licensing partner to get rewarded for those inventions. These people and companies are our customers, and in many cases, components of the patent disenfranchised. Our operating activities have been principally focused on the continued investment in and development of our patent licensing and enforcement business, including the continued pursuit of our ongoing patent licensing and enforcement programs and the commencement of new patent licensing and enforcement programs.

For the three months ended March 31, 2016, we reported revenues of \$24.7 million from 12 new revenue agreements covering 15 different licensing programs. Cash and restricted cash totaled \$156.9 million as of March 31, 2016, as compared to \$145.9 million as of December 31, 2015. During the three months ended March 31, 2016, we made patent related investment payments to patent owners, with whom we partnered for the licensing of their patented technologies, totaling \$1,000,000.

Operating activities during the periods presented included the following:

	Three Months Ended March 31, 2016 2015	
Revenues (in thousands)	\$24,721	\$34,210
New agreements executed	12	23
Licensing and enforcement programs generating revenues	15	18

We measure and assess the performance and growth of the patent licensing and enforcement businesses conducted by our operating subsidiaries based on consolidated revenues recognized across all of our technology licensing and enforcement programs on a trailing twelve-month basis. Trailing twelve-month revenues during the periods presented were as follows (in thousands, except percentage change values):

As of Date:	Trailing Twelve -Month Revenues	% Change
March 31, 2016	\$ 115,548	(8 )%
December 31, 2015	\$ 125,037	5 %
September 30, 2015	\$ 118,570	(17 )%
June 30, 2015	\$ 142,768	(6 )%
March 31, 2015	\$ 152,508	— %

Our revenues historically have fluctuated quarterly, and can vary significantly, based on a number of factors including the following:

the dollar amount of agreements executed each period, which can be driven by the nature and characteristics of the technology or technologies being licensed and the magnitude of infringement associated with a specific licensee;

- the specific terms and conditions of agreements executed each period including the nature and characteristics of rights granted, and the periods of infringement or term of use contemplated by the respective payments;
- fluctuations in the total number of agreements executed each period;
- the number of, timing, results and uncertainties associated with patent licensing negotiations, mediations, patent infringement actions, trial dates and other enforcement proceedings relating to our patent licensing and enforcement programs;
- the relative maturity of licensing programs during the applicable periods;

other external factors, including the periodic status or results of ongoing negotiations, the status or results of ongoing litigations and appeals, actual or perceived shifts in the regulatory environment, impact of unrelated patent related judicial proceedings and other macroeconomic factors; and

- historically, based on the merits and strength of our operating subsidiary's patent infringement claims and other factors, many prospective licensees have elected to settle significant patent infringement cases and pay reasonable license fees for the use of our patented technology, as those patent infringement cases approached a court determined trial date.

Management does not attempt to manage for smooth sequential periodic growth in revenues period to period, and therefore, periodic results can be uneven. In some cases, 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 three months ended March 31, 2016 included fees from the following technology licensing and enforcement programs:

- |  |  |
|--|--|
| 4G Wireless technology                           | •Online Auction Guarantee technology                           |
| •Audio Communications Fraud Detection technology | •Reflective and Radiant Barrier Insulation technology          |
| •Bone Wedge technology                           | •Speech codes used in wireless and wireline systems technology |
| •Broadband Communications technology             | •Telematics technology   |
| •Cardiology and Vascular Device technology       | •Unicondylar Knee Replacement technology                       |
| •DisplayPort and MIPI DSI technology             | •Variable Data Printing technology <sup>(1)</sup>              |
| •Gas Modulation Control Systems technology       | •Wireless Infrastructure and User Equipment technology         |
| •Lighting Ballast technology                     |  |

<sup>(1)</sup> Initial revenues recognized during the three months ended March 31, 2016

Revenues for the three months ended March 31, 2015 included fees from the following technology licensing and enforcement programs:

- |  |  |
|--|--|
| 3G & 4G Cellular Air Interface and Infrastructure technology | •Location Based Services technology                            |
| •Audio Communications Fraud Detection technology             | •Oil and Gas Production technology                             |
| •Automotive Safety, Navigation and Diagnostics technology    | •Online Auction Guarantee technology                           |
| •Broadband Communications technology                         | •Reflective and Radiant Barrier Insulation technology          |
| •DisplayPort and MIPI DSI technology <sup>(1)</sup>          | •Semiconductor Testing technology <sup>(1)</sup>               |
| •Gas Modulation Control Systems technology                   | •Speech codes used in wireless and wireline systems technology |
| •Innovative Display technology                               | •Super Resolutions Microscopy technology                       |
| •Intercarrier SMS technology                                 | •Suture Anchors technology                                     |
| •Interstitial and Pop-Up Internet Advertising technology     | •Telematics technology   |

<sup>(1)</sup> Initial revenues recognized during the three months ended March 31, 2015



Summary of Results of Operations - Overview  
 For the Three Months Ended March 31, 2016 and 2015  
 (In thousands, except percentage change values)

	Three Months Ended March 31,		% Change
	2016	2015	
Revenues	\$24,721	\$34,210	(28 )%
Operating costs and expenses	34,423	47,820	(28 )%
Operating loss	(9,702 )	(13,610 )	(29 )%
Loss before provision for income taxes	(9,705 )	(13,382 )	(27 )%
Provision for income taxes	(192 )	(170 )	13 %
Net (income) loss attributable to noncontrolling interests in operating subsidiaries	(68 )	422	(116)%
Net loss attributable to Acacia Research Corporation	(9,965 )	(13,130 )	(24 )%

Overview - Three months ended March 31, 2016 compared with the three months ended March 31, 2015

Revenues decreased \$9.5 million, or 28%, to \$24.7 million, as compared to \$34.2 million in the comparable prior year quarter, due primarily to a decrease in the number of agreements executed, partially offset by an increase in the average revenue per agreement in the first quarter of 2016.

Loss before income taxes was \$9.7 million for the three months ended March 31, 2016, as compared to \$13.4 million for the three months ended March 31, 2015. The change was due primarily to the 28% decrease in revenues and the (28)% decrease in operating costs, including the following:

Cost of Revenues and Other Operating Expenses:

Inventor royalties and contingent legal fees, on a combined basis, decreased \$8.4 million, or 60%, compared to the 28% decrease in related revenues for the same periods, due primarily to a greater percentage of revenues generated in the first quarter of 2016 having lower average inventor royalty rates, primarily due to higher average levels of upfront advance recovery related preferred returns, as compared to the portfolios generating revenues in the prior year quarter.

Litigation and licensing expenses-patents decreased \$952,000, or 11%, to \$7.7 million, due primarily to a net decrease in litigation support costs associated with upcoming trials.

Amortization expense decreased \$2,278,000, or 17%, to \$10.8 million, due to a decrease in scheduled amortization on existing patent portfolios resulting from various patent portfolio impairment charges previously recorded in the fourth quarter of 2015.

General and administrative expenses decreased \$2.6 million, or 24%, to \$8.0 million, due primarily to a net decrease in non-cash stock compensation and personnel costs in connection with head count reduction activities in 2015 and 2016, and a decrease in variable performance-based compensation costs.

Other operating expenses were \$1.7 million as compared to \$426,000 in the comparable prior year quarter. Other operating expenses includes expense accruals for court ordered attorney's fees and settlement and contingency accruals for other matters.

Investments in Patent Portfolios

Certain of our operating subsidiaries continue to identify and explore opportunities to partner with patent owners with quality patent assets, across a range of technology areas that have been, or are anticipated to be, adopted by third-parties in connection with the manufacture or sale of products and services. Future patent portfolio investments will expand and diversify our future revenue generating opportunities.



Neither we nor our operating subsidiaries invent new technologies or products; rather, we depend upon the identification and investment in new patents and inventions through our new or existing relationships with patent owners. If our operating subsidiaries are unable to maintain those relationships and to continue to grow new relationships, then they may not be able to identify new technology-based opportunities for sustainable revenue and growth. In this regard, our current or future relationships may not provide the volume or quality of technologies necessary to sustain our business. In some cases, universities and other technology sources may 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 may reduce the number of technology sources and potential clients to whom we can market our services. 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 operating results, financial condition and business overall.

For example, in fiscal year 2015, we obtained control of 3 new patent portfolios with applications over a wide range of technology areas, compared to 6 new patent portfolios and 25 new patent portfolios in fiscal years 2014 and 2013, respectively. We did not acquire any new patent portfolios in the first quarter of 2016. The decrease in patent portfolio intake, in part, reflects a strategic decision in 2013 to shift the focus of our operating business to increasingly serve a smaller number of customers each having higher quality patent portfolios. High quality patent portfolios are typically associated with higher numbers of varied defensible claims, higher revenue potential, originating from high-pedigreed patent owners and/or possessing a relatively large number of prospective licensees. As a result, our gross number of patent portfolio acquisitions has trended downward. The decrease may also be reflective, in part, of industry trends impacting our ability to acquire patent portfolios. For example, legislative and legal changes have increased the complexity of patent enforcement and may be affecting the market availability of suitable patent portfolios for acquisition. Despite recent efforts to broaden our patent portfolio intake, if these industry trends continue, our future patent portfolio intake could be negatively impacted, resulting in a decrease in future revenue generating opportunities.

#### Patent Licensing and Enforcement

**Patent Litigation Trial Dates and Related Trials.** As of the date of this report, our operating subsidiaries have 12 pending patent infringement cases with a scheduled trial date in the next six 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 since outcomes can be unfavorable. It is often difficult for juries and trial judges to understand complex patented technologies, and as a result, this may lead to a higher rate of unfavorable outcomes. Moreover, in the event of a favorable outcome, there is a higher rate of successful appeals in patent enforcement litigation than more standard business litigation. Such appeals are expensive and time consuming, resulting in increased costs and a potential for delayed or foregone revenue opportunities in the event of modification or reversal of favorable outcomes. Although we diligently pursue enforcement litigation, we cannot predict with significant reliability the decisions made by juries and trial courts.

**Litigation and Licensing Expense.** We expect patent-related legal expenses to continue to fluctuate from period to period based on the factors summarized herein, in connection with future trial dates, international enforcement, strategic patent portfolio prosecution and our current and future patent portfolio investment, prosecution, licensing and

enforcement activities. The pursuit of enforcement actions in connection with our licensing and enforcement programs can involve certain risks and uncertainties, including the following:

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

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

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

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

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.

#### Critical Accounting Estimates

Our unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. Preparation of these consolidated statements requires management to make judgments and estimates. Some accounting policies have a significant impact on amounts reported in these consolidated financial statements. 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 on Form 10-K for the year ended December 31, 2015. Refer to Note 2 to the consolidated financial statements included in this report.

#### Consolidated Results of Operations

##### Comparison of the Results of Operations for the Three Months Ended March 31, 2016 and 2015

##### Revenues and Pretax Net Loss

	Three Months Ended		Change	
	March 31, 2016	March 31, 2015	\$	%
Revenues (in thousands, except percentage change values)	\$24,721	\$34,210	\$(9,489)	(28)%
New agreements executed	12	23		
Average revenue per agreement (in thousands)	\$2,060	\$1,487		

A reconciliation of the change in revenues (based on average revenue per agreement) for the periods presented, using the prior year period as the base period, is as follows (in thousands):

Three  
Months  
Ended  
March 31,

2016 vs.  
2015

Change in number of agreements executed	\$(16,361)
Change in average revenue per agreement executed	6,872
Total change in revenues	\$(9,489 )

Four licensees individually accounted for 22%, 19%, 16% and 11% of revenues recognized during the three months ended March 31, 2016, and two licensees individually accounted for 58% and 15% of revenues recognized during the three months ended March 31, 2015. For the periods presented herein, the majority of the revenue agreements executed provided for

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the payment of one-time, paid-up license fees in consideration for the grant of certain intellectual property 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.

	Three Months Ended March 31,		Change	
	2016	2015	\$	%
	(in thousands, except percentage change values)			
Loss before provision for income taxes	\$ (9,705)	\$ (13,382)	\$ 3,677	(27)%

A reconciliation of the change in pretax loss for the periods presented is as follows:

	Three Months Ended March 31, 2016 vs. 2015		
	%		
	(in thousands, except percentage values)		
Decrease in revenues	\$ (9,489)	(258)	%
Decrease in inventor royalties and contingent legal fees	8,427	229	%
Decrease in general and administrative expenses	2,581	70	%
Decrease in litigation and licensing expenses	952	26	%
Decrease in patent amortization expenses	2,278	62	%
Other	(1,072 )	(29 )	%
Total change in loss before provision for income taxes	\$ 3,677	100	%

#### Cost of Revenues

	Three Months Ended March 31,		Change	
	2016	2015	\$	%
	(in thousands, except percentage change values)			
Inventor royalties	\$ 1,573	\$ 9,325	\$ (7,752)	(83)%
Contingent legal fees	\$ 4,109	\$ 4,784	\$ (675 )	(14)%

**Inventor Royalties and Contingent Legal Fees Expense.** Inventor royalties and contingent legal fee expenses fluctuate period to period, based on the amount of revenues recognized each period, the terms and conditions of agreements executed each period and the mix of specific patent portfolios with varying economic terms and obligations generating revenues each period. A summary of the main drivers of the change in inventor royalties expense and contingent legal fees expense for the comparable periods presented, using the prior year period as the base period, is as follows (in thousands, except percentage values):

	Three Months Ended March 31, 2016 vs. 2015
Inventor Royalties:	
Decrease in total revenues	\$(2,605) 34 %
Decrease in inventor royalty rates	(72 ) 1 %
Increase in revenues without inventor royalty obligations primarily due to upfront advance related preferred returns	(5,075 ) 65 %
Total change in inventor royalties expense	\$(7,752) 100%



Three  
Months  
Ended  
March  
31,  
2016 vs. %  
2015

Personnel cost reductions due to headcount reductions	\$(1,586)	61	%
Variable performance-based compensation costs	(534)	) 21	%
Corporate, general and administrative costs	558	(22)	%
Non-cash stock compensation expense	(1,512)	) 59	%
Non-recurring employee severance costs	493	(19)	%
Total change in general and administrative expenses	\$(2,581)	100	%

#### Other Operating Expenses

First quarter 2016 other operating expenses were \$1,742,000 as compared to \$426,000 in the comparable prior year quarter. Other operating expenses includes expense accruals for court ordered attorney's fees and settlement and contingency accruals for other matters.

#### Income Taxes

Three Months  
Ended  
March 31,  
2016 2015

Provision for income taxes (in thousands)	\$(192)	\$(170)
Effective tax rate	2 %	1 %

Tax expense for the three months ended March 31, 2016 and 2015 primarily reflects the impact of foreign withholding taxes related to certain revenue agreements executed with third party licensees domiciled in foreign jurisdictions, state taxes and valuation allowances recorded for foreign withholding tax credits and net operating loss related tax assets generated during the periods.

#### 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 May 2017 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 the caption "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2015. Any efforts to seek additional funding could be made through issuances of equity or debt, or other external financing. However, additional funding may not be available on favorable terms, or at all. The capital and credit markets have experienced extreme volatility and disruption since late 2007, and the volatility and impact of the disruption has continued into 2016. 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 and cash equivalents on hand, excluding restricted cash balances, totaled \$145.3 million at March 31, 2016, compared to \$135.2 million at December 31, 2015. The net change in cash and cash equivalents for the periods presented was comprised of the following (in thousands):

Three Months  
Ended  
March 31,  
2016      2015

Net cash provided by (used in):

Operating activities	\$11,110	\$(15,830)
Investing activities	(1,004 )	(11,651 )
Financing activities	—	(5,437 )

**Cash Flows from Operating Activities.** Cash receipts from licensees for the three months ended March 31, 2016 increased 36% to \$33.0 million, as compared to \$24.4 million in the comparable 2015 period due to the the net impact of the timing of cash receipts from licensees. Cash outflows from operations for the three months ended March 31, 2016 decreased 45% to \$21.9 million, as compared to \$40.2 million in the comparable 2015 period, primarily due to the net impact of the timing of related payments of inventor royalties and contingent legal fees and the timing of payments to other third-parties in the ordinary course, for the same periods. Refer to “Working Capital” below for additional information.

**Restricted Cash.** In March 2015, an operating subsidiary of ours entered into a Guarantee with a bank in connection with enforcing a ruling in a German patent court granting an injunction against the defendants in the related patent infringement case. The Guarantee is secured by a cash deposit (classified as restricted cash in the accompanying balances sheets) at the contracting bank, totaling \$11.5 million and \$10.7 million, at March 31, 2016 and December 31, 2015, respectively. See below for additional information.

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

Three Months  
Ended  
March 31,  
2016      2015

Available-for-sale investments, net	\$—	\$5,210
Investments in patents/ patent rights	(1,000 )	(16,861 )
Purchases of property and equipment	(4 )	—
Net cash provided by investing activities	\$(1,004)	\$(11,651)

**Cash Flows from Financing Activities.** Cash flows from financing activities and related changes included the following for the periods presented (in thousands):

Three  
Months  
Ended  
March 31,  
2016      2015

Dividends paid to stockholders	\$—	\$(6,375)
Proceeds from exercises of stock options	—	938

Net cash used in financing activities      \$~~\$(5,437)~~

We paid quarterly cash dividends totaling \$6.4 million during the three months ended March 31, 2015 in the amount of \$0.125 per share. On February 25, 2016, Acacia announced that its Board of Directors terminated the company's dividend policy effective February 23, 2016.

#### Working Capital

Working capital (including restricted cash) at March 31, 2016 increased to \$153.4 million, compared to \$150.7 million at December 31, 2015. Consolidated accounts receivable from licensees decreased to \$25.2 million at March 31, 2016,

compared to \$33.5 million at December 31, 2015. Consolidated royalties and contingent legal fees payable increased to \$18.6 million at March 31, 2016, compared to \$14.9 million at December 31, 2015.

The majority of accounts receivable from licensees at March 31, 2016 were collected or scheduled to be collected in the second quarter of 2016, in accordance with the terms of the related underlying agreements. The majority of royalties and contingent legal fees payable are scheduled to be paid in the second or third quarter of 2016, subsequent to receipt by us of the related fee payments from licensees, in accordance with the underlying contractual arrangements.

#### Off-Balance Sheet Arrangements

Except as set forth below, we have not entered into off-balance sheet financing arrangements, other than operating leases. We have no significant commitments for capital expenditures in 2016. We have no long-term debt. The following table lists our known contractual obligations and future cash commitments as of March 31, 2016 (in thousands):

	Payments Due by Period (In thousands)				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Contractual Obligations					
Operating leases, net of guaranteed sublease income	\$4,960	\$ 942	\$2,569	\$1,449	\$ —

**Standby Letter of Credit and Guarantee Arrangement.** In March 2015, an operating subsidiary of ours entered into a standby letter of credit and guarantee arrangement (“Guarantee”) with a bank for purposes of enforcing a court ruling in a German patent court granting an injunction against the defendants in the related patent infringement case.

An injunction is an equitable remedy in the form of a court order that compels the defendant(s) to cease marketing, offering for sale or importing applicable infringing products into applicable jurisdiction(s). Under German law, in order to enforce the injunction granted by the court, a Guarantee is required to be furnished by our operating subsidiary, the plaintiff in the case, for potential payment to the defendants of any applicable claims which may be incurred by the defendants as a result of the enforcement of the injunction, only in the event that the aforementioned court ruling is subsequently successfully appealed by the defendants or otherwise amended. The Guarantee is required to be issued unlimited with respect to time, until appropriately extinguished in accordance with German law. The Guarantee will be extinguished when a relevant extinguishment order by the court having jurisdiction takes effect, typically occurring when the related infringement case has been settled or a final non-appealable decision has been issued by the court.

The Guarantee is secured by a cash deposit at the contracting bank totaling \$11.5 million and \$10.7 million, as of March 31, 2016 and December 31, 2015, respectively. Changes in the balance are primarily a result of foreign currency exchange rate fluctuations and the related impact on the underlying collateral, which is denominated in U.S. dollars. The Guarantee expires on April 10, 2017, however, it is automatically extended without amendment for a period of one (1) year from the present or any future expiration date, unless at least 30 days prior to any expiration date, the Guarantee is extinguished in accordance with German law. The Guarantee facility fee is 1.15% per year, and the related expense is included in the statement of operations.

**Uncertain Tax Positions.** At March 31, 2016, we had total unrecognized tax benefits of approximately \$2.1 million, including a recorded noncurrent liability of \$85,000 related to unrecognized tax benefits primarily associated with state taxes. No interest and penalties have been recorded for the unrecognized tax benefits as of March 31, 2016.

Recognition of the tax benefits would not have a material impact on our effective tax rate. We do not expect that the liability for unrecognized tax benefits will change significantly within the next 12 months. There was no activity related to the gross unrecognized tax benefits for the periods presented.

#### Recent Accounting Pronouncements

Refer to Note 7 to the consolidated financial statements included in this report.

#### Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The primary objective of our investment activities is to preserve principal while concurrently maximizing the income we receive from our investments without significantly increasing risk. Some of the securities that we invest in may be subject to interest rate risk and/or market risk. This means that a change in prevailing interest rates, with respect to interest rate risk, or

a change in the value of the United States equity markets, with respect to market risk, may cause the principal amount or market value of the investments to fluctuate. For example, if we hold a security that was issued with a fixed interest rate at the then-prevailing rate and the prevailing interest rate later rises, the current value of the principal amount of our investment may decline. To minimize these risks in the future, we intend to maintain our portfolio of cash equivalents and short-term investments in a variety of securities, including commercial paper, money market funds, high-grade corporate bonds, government and non-government debt securities and certificates of deposit.

During the periods presented, our short-term investments were comprised of AAA-rated money market funds that invest in first-tier only securities, which primarily include domestic commercial paper, securities issued or guaranteed by the U.S. government or its agencies, U.S. bank obligations, and fully collateralized repurchase agreements (included in cash and cash equivalents in the accompanying consolidated balance sheets) and direct investments in highly liquid, AAA-rated, U.S. government securities.

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 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 investment portfolio, an immediate 10% change 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.

#### Item 4. CONTROLS AND PROCEDURES

##### Evaluation of Disclosure Controls and Procedures.

Our management, with the participation and under the supervision of our chief executive officer and chief financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended, or the Exchange Act) as of the end of the period covered by this quarterly report. Based on that evaluation, our chief executive officer and our chief financial officer have concluded that our disclosure controls and procedures were effective as of the end of the period covered by this quarterly report 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 specified in the SEC's rules and forms.

##### 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 March 31, 2016) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

##### 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 1A. RISK FACTORS

The risk factors set forth below contain changes to the description of the applicable risk factors previously disclosed in Item 1A. to our Annual Report on Form 10-K for the fiscal year ended December 31, 2015 filed with the SEC on March 15, 2016.

Failure to effectively manage our operational changes could strain our managerial, operational and financial resources and could adversely affect our business and operating results.

Our recent operational changes have placed, and are expected to continue to place, a strain on our managerial, operational and financial resources and systems. Operational changes primarily relate to the resignation of Matthew Vella, our former Chief Executive Officer and President in December 2015, the appointment of Marvin Key, Chief Executive Officer of Acacia Research Group LLC, to Chief Executive Officer of Acacia Research Corporation in December 2015, and 2015 and 2016 reductions in employee headcount across our licensing, business development and engineering functions. Further, as our operating subsidiary companies' businesses grow or change, we will be required to continue to manage multiple relationships. Any further growth or change by us or our subsidiary companies, or an increase in the number of our strategic relationships, may place additional strain on our managerial, operational and financial resources and systems. Although we may not grow as we expect, if we fail to manage our growth or other operational changes effectively or to develop, expand or otherwise modify our managerial, operational and financial resources and systems, our business and financial results will be materially harmed.

Item 6. EXHIBITS

EXHIBIT  
NUMBER EXHIBIT

- |      |   |
|------|---|
| 3.1  | Amended and Restated Bylaws (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-k filed on March 28, 2016).  |
| 31.1 | Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934                            |
| 31.2 | Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934                            |
| 32.1 | Certification of Chief 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 Chief 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   |



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

/s/ Marvin Key

By: Marvin Key

Interim Chief Executive Officer

(Principal Executive Officer and Duly Authorized Signatory)

/s/ Clayton J. Haynes

By: Clayton J. Haynes

Chief Financial Officer and Treasurer

(Principal Financial and Accounting Officer)

Date: May 9, 2016

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