

ACACIA RESEARCH CORP  
Form 10-K  
February 29, 2012

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

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FORM 10-K

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

OR

TRANSACTION 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)

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

|  |                     |
|--|---------------------|
| 500 NEWPORT CENTER DRIVE,<br>NEWPORT BEACH, CA<br>(Address of principal executive offices) | 92660<br>(Zip Code) |
|--|---------------------|

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

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

| Title of Each Class             | Name of Each Exchange on Which Registered |
|---------------------------------|---|
| Common Stock, \$0.001 par value | The NASDAQ Stock Market, LLC              |

Securities registered pursuant to Section 12(g) of the Act: None

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes R No

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Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 Act). Yes  No

The aggregate market value of the registrant's voting and non-voting common stock held by non-affiliates of the registrant on June 30, 2011, the last business day of the registrant's most recently completed second fiscal quarter, computed by reference to the last sale price of the registrant's common stock as reported by The Nasdaq Global Select Market on such date, was approximately \$1,518,745,000. This computation assumes that all executive officers, directors and persons known to the registrant to be the beneficial owners of more than ten percent of the registrant's common stock are affiliates of the registrant. Such assumption should not be deemed conclusive for any other purpose.

As of February 27, 2012, 49,624,978 shares of common stock were issued and outstanding.

#### DOCUMENTS INCORPORATED BY REFERENCE

In accordance with General Instruction G(3) to Form 10-K, portions of the registrant's Definitive Proxy Statement on Schedule 14A for its Annual Meeting of Stockholders to be filed with the Commission within 120 days after the close of the fiscal year covered by this Annual Report on Form 10-K are incorporated by reference into Part III of this Annual Report on Form 10-K. Only those portions of the proxy statement that are specifically incorporated by reference herein shall constitute a part of this Annual Report on Form 10-K.

ACACIA RESEARCH CORPORATION  
 ANNUAL REPORT ON FORM 10-K  
 FISCAL YEAR ENDED DECEMBER 31, 2011  
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## PART I

### CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

As used in this Annual Report on Form 10-K, “we,” “us” and “our” refer to Acacia Research Corporation and/or its wholly and majority-owned operating subsidiaries. All intellectual property acquisition, development, licensing and enforcement activities are conducted solely by certain of our wholly owned operating subsidiaries.

This Annual Report on Form 10-K, or the annual report, contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, which include, without limitation, statements about our future business operations and results, our strategies and competition, and other forward-looking statements included in this annual report. Such statements may be identified by the use of forward-looking terminology such as “may,” “will,” “expect,” “believe,” “estimate,” “anticipate,” “intend,” “continue,” or similar terms, variations of such terms or the negative of terms. Such statements are based on management's current expectations and are subject to a number of risks 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 earnings, capital expenditures, litigation, competition, regulatory matters, stock price volatility, 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 future economic conditions, changes in demand for our services, legislative, regulatory and competitive developments in markets in which we and our subsidiaries operate, and other circumstances affecting anticipated revenues and costs, as more fully disclosed in our discussion of "Risk Factors" in Item 1A of Part I of this annual report. We expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein 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. Additional factors that could cause such results to differ materially from those described in the forward-looking statements are set forth in connection with the forward-looking statements.

## ITEM 1. BUSINESS

### General

Our operating subsidiaries acquire, develop, license and enforce patented technologies. 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 own or control. 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, if necessary, with the enforcement against unauthorized users of their patented technologies.

We are a leader in licensing patented technologies and have established a proven track record of licensing success with over 1,080 license agreements executed to date, across 112 of our technology license programs. Currently, on a consolidated basis, our operating subsidiaries own or control the rights to over 200 patent portfolios, which include U.S. patents and certain foreign counterparts covering technologies used in a wide variety of industries.

### Other

We were originally incorporated in California in January 1993 and reincorporated in Delaware in December 1999. Our website address is [www.acaciaresearch.com](http://www.acaciaresearch.com). Reference in this annual report to this website address does not constitute incorporation by reference of the information contained on the website. We make our filings with the Securities and Exchange Commission, or the SEC, including our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, other reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, and amendments to the foregoing reports, available free of charge on or through our website as soon as reasonably practicable after we file these reports with, or furnish such reports to, the SEC. In addition, we post the following information on our website:

- our corporate code of conduct, our code of conduct for our board of directors and our fraud policy; and

- charters for our audit committee, nominating and corporate governance committee, disclosure committee and compensation committee.

The public may read and copy any materials that we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

Also, the SEC maintains an Internet website that contains reports, proxy and information statements, and other information regarding issuers, including us, that file electronically with the SEC. The public can obtain any documents that we file with the SEC at <http://www.sec.gov>.

### Intellectual Property Licensing Business

Our operating subsidiaries acquire, develop, license and enforce patented technologies. 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 own or control. 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, if necessary, with the enforcement against unauthorized users of their patented technologies. Currently, on a consolidated basis, our operating subsidiaries own or control the rights to over 200 patent portfolios, which include U.S. patents and certain foreign counterparts, covering technologies used in a wide variety of industries. Refer to the section entitled "Patented Technologies" below for a partial summary of patent portfolios owned or controlled by certain of our operating subsidiaries.

We are a leader in patent licensing and our operating subsidiaries have established a proven track record of licensing success with more than 1,080 license agreements executed to date. To date, on a consolidated basis, we have generated revenues from 112 of our technology licensing and enforcement programs. Our professional staff includes in-house patent attorneys, licensing executives, engineers and business development executives.

Our partners include individual inventors and small technology companies who have limited resources and/or expertise to effectively address the unauthorized use of their patented technologies, and also include research laboratories, universities, and large companies seeking to effectively and efficiently monetize their portfolio of patented technologies. In a typical arrangement, our operating subsidiary will acquire a patent portfolio or acquire rights to a patent portfolio, and in exchange, the original patent portfolio owner receives (i) an upfront payment for the purchase of the patent portfolio or patent portfolio rights, or (ii) a percentage of our operating subsidiary's net recoveries from the licensing and enforcement of the patent portfolio, or (iii) a combination of the two.

Under U.S. law, an inventor or patent owner has the right to exclude others from making, selling or using their patented invention. Unfortunately, in the majority of cases, infringers are generally unwilling, at least initially, to negotiate or pay reasonable royalties for their unauthorized use of third-party patents and will typically fight any allegations of patent infringement. Inventors and/or patent holders without sufficient legal, financial and/or expert technical resources to bring and continue the pursuit of legal action may lack credibility in dealing with unwilling licensees, and as a result, are often blatantly ignored.

As a result of the common reluctance of patent infringers to negotiate and ultimately take a patent license for the use of third-party patented technologies without at least the threat of legal action, patent licensing and enforcement often begins with the filing of patent enforcement litigation. However, the majority of patent infringement contentions settle out of court, based on the strength of the patent claims, validity, and persuasive evidence and clarity that the patent is being infringed.

We execute patent licensing and intellectual property rights arrangements with users of our patented technologies through willing negotiations without the filing of patent infringement litigation, or through the negotiation of a patent license, intellectual property rights and settlement arrangements in connection with the filing of patent infringement litigation.

## Business Model and Strategy - Overview

The business model associated with the licensing and enforcement activities conducted by our operating subsidiaries is summarized in the following illustration:

### Key Elements of Business Strategy

Our intellectual property acquisition, development, licensing and enforcement business strategy, conducted solely by our operating subsidiaries, includes the following key elements:

#### Identify Emerging Growth Areas where Patented Technologies will Play a Vital Role

The patent process breeds, encourages and sustains innovation and invention by granting a limited monopoly to the inventor in exchange for sharing the invention with the public. Certain technologies, including several of the technologies controlled by our operating subsidiaries, some of which are summarized below, become core technologies in the way products and services are manufactured, sold and delivered by companies across a wide array of industries. Our operating subsidiaries identify core, patented technologies that have been or are anticipated to be widely adopted by third parties in connection with the manufacture or sale of products and services.

#### Contact and Form Alliances with Owners of Core, Patented Technologies

Often individual inventors and small companies have limited resources and/or expertise and are unable to effectively address the unauthorized use of their patented technologies. Individual inventors and small companies may lack sufficient capital resources and may also lack in-house personnel with patent licensing and/or enforcement expertise or experience, which may make it difficult to effectively and efficiently out-license and/or enforce their patented technologies.

For years, many large companies have earned substantial revenue licensing patented technologies to third parties. Other companies that do not have internal licensing resources and expertise may have continued to record the capitalized carrying value of their core and/or non-essential intellectual property in their financial statements, without deriving income from their intellectual property or realizing the potential value of their intellectual property assets. Securities and financial reporting regulations require these companies to periodically evaluate and potentially reduce or write-off these intellectual property assets if they are unable to substantiate these reported carrying values.



Our operating subsidiaries seek to enter into business agreements with owners of intellectual property that do not have experience or expertise in the areas of intellectual property licensing and enforcement, or that do not possess the in-house resources to devote to intellectual property licensing and enforcement activities, or that, for any number of strategic business reasons, desire to more efficiently and effectively outsource their intellectual property licensing and enforcement activities.

#### Effectively and Efficiently Evaluate Patented Technologies for Acquisition, Licensing and Enforcement

Subtleties in the language of a patent, recorded interactions with the patent office, and the evaluation of prior art and literature can make a significant difference in the potential licensing and enforcement revenue derived from a patent or patent portfolio. Our specialists are trained and skilled in these areas. It is important to identify potential problem areas, if any, and determine whether potential problem areas can be overcome, prior to acquiring a patent portfolio or launching an effective licensing program. We have developed processes and procedures for identifying problem areas and evaluating the strength of a patent portfolio before the decision is made to allocate resources to an acquisition or to launch an effective licensing and enforcement effort.

**Patent Portfolio Evaluation.** The processes and procedures employed in connection with the evaluation of a specific patent portfolio for acquisition, licensing and enforcement are tailored and unique to each specific situation, and can vary widely based on the specific facts and circumstances of a specific patent portfolio, such as the related technology related industry and certain other factors. Some of the key components of our processes and procedures may include:

- Utilizing our staff of in-house intellectual property business development executives, patent attorneys, intellectual property licensing executives, and technology engineers to conduct our tailored patent acquisition and evaluation processes and procedures. We may also leverage the expertise of external specialists and technology consultants.

- Identifying emerging growth areas where patented technologies will play a vital role in connection with the manufacture or sale of products and services.

- Identifying core, patented technologies that have been or are anticipated to be widely adopted by third parties in connection with the manufacture or sale of products and services.

- Considering the impact of subtleties in the language of a patent, recorded interactions with the patent office, evaluating prior art and literature and considering the impact on the potential licensing and enforcement revenue that can be derived from a patent or patent portfolio.

- Evaluating the strength of a patent portfolio, including consideration of the types of claims and the number of claims potentially infringed by third parties, before the decision is made to allocate resources to an acquisition or an effective licensing and enforcement effort.

- Identifying and considering potential problem areas, if any, and determining whether potential problem areas can be overcome prior to acquiring a patent portfolio or launching an effective licensing program.

- Identifying potential infringers, industries within which the potential infringers exist, longevity of the patented technology, and a variety of other factors that directly impact the magnitude and potential success of a licensing and enforcement program.

#### Purchase or Acquire the Rights to Patented Technologies

After evaluation, our operating subsidiaries may elect to purchase the patented technology, or acquire the exclusive right to license the patented technology in all or in specific fields of use. The original owner of the patent or patent rights will typically receive an upfront acquisition payment, or retain the right to a portion of the net revenues generated from a patent portfolio's licensing and enforcement program, or a combination of the two. Our operating

subsidiaries generally control the licensing and enforcement process and utilize experienced in-house personnel to reduce outside costs and to ensure that the necessary capital and expertise is allocated and deployed in an efficient and cost effective manner.

#### Successfully License and Enforce Patents with Significant Royalty Potential

As part of the patent evaluation process employed by our operating subsidiaries, significant consideration is also given to the identification of potential infringers, industries within which the potential infringers exist, longevity of the patented technology, and a variety of other factors that directly impact the magnitude and potential success of a licensing and enforcement program. Our specialists are trained in evaluating potentially infringing technologies and in presenting the claims of our patents and demonstrating how they apply to companies we believe are using our technologies in their products or services. These presentations can take place in a non-adversarial business setting, but

can also occur through the litigation process, if necessary. Ultimately, we execute patent licensing arrangements with users of our patented technologies through licensing negotiations without the filing of patent infringement litigation, or through the negotiation of license and settlement arrangements in connection with the filing of patent infringement litigation.

### Patented Technologies

Currently, on a consolidated basis, our operating subsidiaries own or control the rights to over 200 patent portfolios, with future patent expiration dates ranging from 2012 to 2030, and covering technologies used in a wide variety of industries, including the following:

- Aligned Wafer Bonding
- Audio Communications Fraud Detection
- Audio Storage and Retrieval System
- Audio/Video Enhancement & Synchronization
- Authorized Spending Accounts
- Automated Communications
- Automated Notification of Tax Return Status
- Automated Tax Reporting
- Automatic Image Labeling
- Biosensor
- Broadcast Data Retrieval
- Business Process Modeling (BPM)
- Camera Support
- Catheter Insertion
- Child-Friendly Secure Mobile Phones
- Chip-Stacking
- Color Correction for Video Graphics Systems
- Compact Disk
- Compiler
- Computer Architecture and Power Management
- Computer Graphics
- Computer Memory Cache Coherency
- Computer Simulations
- Computer Storage Restoration
- Enhanced Internet Navigation
- Enterprise Content Management
- Facilities Operation Management System
- File Locking in Shared Storage Networks
- File Systems and Development Environments
- Flash Memory
- Fluid Flow Control and Monitoring
- Gemstone Grading
- GPS
- Greeting Card
- Hearing Aid ECS
- Heated Surgical Blades
- High Performance Computer Architecture
- High Quality Image Processing
- High Resolution Optics
- Image Resolution Enhancement
- Impact Instrument
- Improved Anti-Trap Safety Technology for Vehicles
- Improved Commercial Print
- Improved Lighting
- Improved Memory Manufacturing
- Improved Printing
- Information Portal Software
- 
- Online Ad Tracking
- Online Auction Guarantees
- Online Promotion
- Optical Recording
- Optical Switching
- Parallel Processing with Shared Memory
- Peer to Peer Communications
- Physical Access Control
- Picture Archiving & Communication Systems
- Pointing Device
- Portable Credit Card Processing
- Portable Storage Devices with Links
- Power Management Within Integrated Circuits
- Product Activation
- Projector
- Purifying Nucleic Acids
- Radio Communication with Graphics
- Records Management
- Relational Database Access
- Remote Management of Imaging Devices
- Resource Scheduling
- Rule Based Monitoring
- Shape Memory Alloys
- Software Activation

- Consumer Rewards
- Continuous TV Viewer Measuring
- Copy Protection
- Credit Card Fraud Protection
- Database Access
- Database Management
- Database Retrieval Technology
- Digital Newspaper Delivery
- Digital Signal Processing Architecture
- Digital Video Enhancement
- Information Storage, Searching and Retrieval
- Integrated Access
- Interactive Content in a Cable Distribution System
- Internet Radio Advertising
- Interstitial Internet Advertising & Pop-Up Internet Advertising
- Intraluminal Device Technology
- Item Identification
- Laparoscopic Surgery
- Laptop Connectivity
- Lighting Ballast
- Lighting Control
- Software Installation
- Software License Management
- Spreadsheet Automation
- Storage Technology
- Surgical Catheter
- Targeted Content Delivery
- Telematics
- Television Data Display
- Television Signal Scrambling
- Text Auto-Completion

- Digital Video Production
- Disk Array Systems
- Distributed Data Management and Synchronization
- DMT®
- Document Generation
- Document Retrieval Using Global Word Co-Occurrence Patterns
- Dynamic Manufacturing Modeling
- Dynamic Random Access Memory
- Electronic Address List Management
- Electronic Message Advertising
- Electronic Securities Trading
- Embedded Broadcast Data
- Encrypted Media & Playback Devices
- Energy Trading
- Enhanced DRAM Architecture
- Line Screen Printing
- Location Based Services
- Manufacturing Data Transfer
- Medical Image Manipulation
- Medical Image Stabilization
- Medical Monitoring
- MEMS
- Messaging
- Micromirror Digital Display
- Microprocessor Enhancement
- Microprocessor Memory Management
- Mobile Computer Synchronization
- Multi-Dimensional Database Compression
- Network Monitoring
- Network Remote Access Technology
- User Programmable Engine Control
- Vehicle Anti-Theft Parking Systems
- Vehicle Maintenance
- Vehicle Occupant Sensing
- Video Encoding
- Videoconferencing
- Virtual Computer Workspaces
- Virtual Server
- Website Crawling
- Wireless Data
- Wireless Digital Messaging
- Wireless LAN
- Wireless Monitoring
- Wireless Multimedia
- Workspace with Moving Viewpoint

#### Patent Enforcement Litigation

Our operating subsidiaries are often required to engage in litigation to enforce their patents and patent rights. Certain of our operating subsidiaries are parties to ongoing patent enforcement related litigation, alleging infringement by third parties of certain of the patented technologies owned or controlled by our operating subsidiaries.

#### Competition

We expect to encounter increased competition in the area of patent acquisitions and enforcement. This includes an increase in the number of competitors seeking to acquire the same or similar patents and technologies that we may seek to acquire. Entities including Allied Security Trust, Altitude Capital Partners, Collier IP, Intellectual Ventures, Millennium Partners, Open Innovation Network, RPX Corporation and Rembrandt IP Management compete in acquiring rights to patents, and we expect more entities to enter the market.

We also compete with venture capital firms, strategic corporate buyers and various industry leaders for technology acquisitions and licensing opportunities. Many of these competitors may have more financial and human resources than our operating subsidiaries. As we become more successful, we may find more companies entering the market for similar technology opportunities, which may reduce our market share in one or more technology industries that we currently rely upon to generate future revenue.

Other companies may develop competing technologies that offer better or less expensive alternatives to our patented technologies that we may acquire and/or out-license. Many potential competitors may have significantly greater resources than the resources that our operating subsidiaries possess. Technological advances or entirely different approaches developed by one or more of our competitors could render certain of the technologies owned or controlled by our operating subsidiaries obsolete and/or uneconomical.

#### Employees

As of December 31, 2011, on a consolidated basis, we had 55 full-time employees. Neither we nor any of our subsidiaries are a party to any collective bargaining agreement. We consider our employee relations to be good.

## ITEM 1A. RISK FACTORS

The following is a summary of certain risks we face in our business. They are not the only risks we face. Additional risks that we do not yet know of or that we currently believe are immaterial may also impair our business operations. If any of the following risks actually occur, our business, financial condition and results of operations could be materially adversely affected, and the trading price of our common stock could decline significantly. All intellectual property acquisition, development, licensing and enforcement activities are conducted solely by certain of our wholly and majority-owned operating subsidiaries.

### Risks Related to Our Business

We have a history of losses and may incur additional losses in the future.

Despite reporting net income of \$21.1 million and \$34.1 million for the years ended December 31, 2011 and 2010, respectively, on a cumulative basis we have sustained substantial losses since our inception. As of December 31, 2011, our accumulated deficit was \$65.1 million. As of December 31, 2011, we had approximately \$323.3 million in cash, cash equivalents and investments on hand, and working capital of \$294.9 million. We expect to continue incurring significant legal, marketing and general and administrative expenses in connection with our operations. As a result, we anticipate that we may incur losses in the future. However, we believe our current cash, cash equivalents and investments will be sufficient to finance our anticipated capital and operating requirements for at least the next twelve months.

If we encounter unforeseen difficulties with our business or operations in the future that require us to obtain additional working capital, and we cannot obtain additional working capital on favorable terms, or at all, our business may suffer.

Our consolidated cash, cash equivalents and investments on hand totaled \$323.3 million and \$104.5 million at December 31, 2011 and 2010, respectively. To date, we have relied primarily upon cash from our operations and from the public and private sale of equity securities to generate the working capital needed to finance our operations.

We may encounter unforeseen difficulties with our business or operations in the future that may deplete our capital resources more rapidly than anticipated. As a result, we may be required to obtain additional working capital in the future through bank credit facilities, public or private debt or equity financings, or otherwise. If we are required to raise additional working capital in the future, such financing may be unavailable to us on favorable terms, if at all, or may be dilutive to our existing stockholders. If we fail to obtain additional working capital as and when needed, such failure could have a material adverse impact on our business, results of operations and financial condition.

Failure to effectively manage our growth could place strains on our managerial, operational and financial resources and could adversely affect our business and operating results.

Our growth has placed, and is expected to continue to place, a strain on our managerial, operational and financial resources and systems. Further, as our subsidiary companies' businesses grow, we will be required to continue to manage multiple relationships. Any further growth 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 effectively or to develop and expand our managerial, operational and financial resources and systems, our business and financial results will be materially harmed.

Our future success depends on our ability to expand our organization to match the growth of our subsidiaries.

As our operating subsidiaries grow, the administrative demands upon us and our operating subsidiaries will grow, and our success will depend upon our ability to meet those demands. These demands include increased accounting, management, legal services, staff support, and general office services. We may need to hire additional qualified personnel to meet these demands, the cost and quality of which is dependent in part upon market factors outside of our control. Further, we will need to effectively manage the training and growth of our staff to maintain an efficient and effective workforce, and our failure to do so could adversely affect our business and operating results.

Potential acquisitions may present risks, and we may be unable to achieve the financial or other goals intended at the time of any potential acquisition.

Our future growth depends, in part, on our ability to acquire patented technologies, patent portfolios, or companies holding such patented technologies and patent portfolios. Accordingly, we have engaged in acquisitions to expand our patent



portfolios and we intend to continue to explore such acquisitions, including the potential significant acquisition of a third party with respect to which we have begun due diligence efforts. Such acquisitions are subject to numerous risks, including the following:

- our inability to enter into a definitive agreement with respect to any potential acquisition, or if we are able to enter into such agreement, our inability to consummate the potential acquisition;

- difficulty integrating the operations, technology and personnel of the acquired entity;

- our inability to achieve the anticipated financial and other benefits of the specific acquisition;

- our inability to retain key personnel from the acquired company, if necessary;

- difficulty in maintaining controls, procedures and policies during the transition and integration process;

- diversion of our management's attention from other business concerns; and

- failure of our due diligence process to identify significant issues, including issues with respect to patented technologies and patent portfolios, and other legal and financial contingencies.

If we are unable to manage these risks effectively as part of any acquisition, our business could be adversely affected. Our revenues are unpredictable, and this may harm our financial condition.

From January 2005 to the present, our operating subsidiaries have executed our business strategy of acquiring patent portfolios and accompanying patent rights. Currently, on a consolidated basis, our operating subsidiaries own or control the rights to over 200 patent portfolios, which include U.S. patents and certain foreign counterparts, covering technologies used in a wide variety of industries. These acquisitions continue to expand and diversify our revenue generating opportunities. We believe that our cash, cash equivalents and investment balances, anticipated cash flow from operations, proceeds from our 2012 private placement offering of our common stock (refer to "Liquidity and Capital Resources" below) and other external sources of available credit, will be sufficient to meet our cash requirements through at least March 2013 and for the foreseeable future. However, due to the nature of our licensing business and uncertainties regarding the amount and timing of the receipt of license and other fees from potential infringers, stemming primarily from uncertainties regarding the outcome of enforcement actions, rates of adoption of our patented technologies, the growth rates of our existing licensees and certain other factors, our revenues may vary significantly from quarter to quarter, which could make our business difficult to manage, adversely affect our business and operating results, cause our quarterly results to fall below market expectations and adversely affect the market price of our common stock.

Our operating subsidiaries depend upon relationships with others to provide technology-based opportunities that can develop into profitable royalty-bearing licenses, and if they are unable to maintain and generate new relationships, then they may not be able to sustain existing levels of revenue or increase revenue.

Neither we nor our operating subsidiaries invent new technologies or products; rather, we depend upon the identification and acquisition of new patents and inventions through our relationships with inventors, universities, research institutions, technology companies and others. If our operating subsidiaries are unable to maintain those relationships and continue to grow new relationships, then they may not be able to identify new technology-based opportunities for sustainable revenue and growth.

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 and financial condition.

The success of our operating subsidiaries depends in part upon their ability to retain the best legal counsel to represent them in patent enforcement litigation.

The success of our licensing business depends upon our operating subsidiaries' ability to retain the best legal counsel to prosecute patent infringement litigation. As our operating subsidiaries' patent enforcement actions increase, it will become more difficult to find the best legal counsel to handle all of our cases because many of the best law firms may have a conflict of interest that prevents their representation of our subsidiaries.

Our operating subsidiaries, in certain circumstances, rely on representations, warranties and opinions made by third parties that, if determined to be false or inaccurate, may expose us and our operating subsidiaries to certain material liabilities.

From time to time, our operating subsidiaries may rely upon representations and warranties made by third parties from whom our operating subsidiaries acquired patents or the exclusive rights to license and enforce patents. We also may rely upon the opinions of purported experts. In certain instances, we may not have the opportunity to independently investigate and verify the facts upon which such representations, warranties, and opinions are made. By relying on these representations, warranties and opinions, our operating subsidiaries may be exposed to liabilities in connection with the licensing and enforcement of certain patents and patent rights which could have a material adverse effect on our operating results and financial condition.

In connection with patent enforcement actions conducted by certain of our subsidiaries, a court may rule that we or our subsidiaries have violated certain statutory, regulatory, federal, local or governing rules or standards, which may expose us and our operating subsidiaries to certain material liabilities.

In connection with any of our patent enforcement actions, it is possible that a defendant may request and/or a court may rule that we have 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, and if we or our operating subsidiaries are required to pay such monetary sanctions, attorneys' fees and/or expenses, such payment could materially harm our operating results and our financial position.

Our investments in auction rate securities are subject to risks, including the continued failure of future auctions, which may cause us to incur losses or have reduced liquidity.

At December 31, 2011, our investments in marketable securities included certain auction rate securities. Our auction rate securities are investment grade quality and were in compliance with our investment policy when purchased. Due to liquidity issues in the global credit and capital markets, these securities experienced several failed auctions since February 2008. In the case of a failure, the auction rate securities continue to pay interest, at the maximum rate, in accordance with their terms; however, we may not be able to access the par value of the invested funds until a future auction of these investments is successful, the security is called by the issuer or a buyer is found outside of the auction process.

At December 31, 2011, the par value of our auction rate securities collateralized by student loan portfolios totaled \$2.4 million. As a result of our analysis of the estimated fair value of our student loan collateralized instruments as described at Note 7 to the notes to consolidated financial statements included elsewhere herein, we recorded an other-than-temporary loss of \$296,000 in our statement of operations for the year ended December 31, 2009. As a

result of partial redemptions at par on certain of these auction rate securities subsequent to June 30, 2008, we recorded net realized gains totaling \$15,000, \$32,000, and \$13,000 for 2011, 2010, and 2009, respectively, reflecting a partial recovery of the other-than-temporary loss originally recorded on these securities. As of December 31, 2011, the net other-than-temporary loss on auction rate securities collateralized by student loan portfolios totaled \$469,000.

The capital and credit markets have been experiencing extreme volatility and disruption since 2008, and at times, the volatility and disruption have reached unprecedented levels. In some cases, the markets have exerted downward pressure on stock prices and credit capacity for certain issuers. Although economic conditions appear to be improving, if the current capital and credit markets do not continue to improve or further deteriorate, we may be unable to liquidate a particular issue. Furthermore, if economic conditions do not continue to improve, or if they further deteriorate, we may be required to record additional impairment charges in a future period despite our ability to hold such investments until maturity. The systemic failure of future auctions for auction rate securities may result in a loss of liquidity, substantial impairment to our investments, realization of substantial future losses, or a complete loss of the investment in the long-term which may have a material adverse effect on our business, results of operations, liquidity, and financial condition. Refer to Note 7 to our notes to consolidated financial statements, included elsewhere herein, for information about our investments in auction rate securities.

## Risks Related to Our Industry

Our exposure to uncontrollable outside influences, including new legislation, court rulings or actions by the United States Patent and Trademark Office, could adversely affect our licensing and enforcement business and results of operations.

Our licensing and enforcement business is subject to numerous risks from outside influences, including the following:

New legislation, regulations or rules related to obtaining patents or enforcing patents could significantly increase our operating costs and decrease our revenue.

Our operating subsidiaries acquire patents with enforcement opportunities and are spending a significant amount of resources to enforce those patents. If new legislation, regulations or rules are implemented either by Congress, the U.S. Patent and Trademark Office, or USPTO, or the courts that impact the patent application process, the patent enforcement process or the rights of patent holders, these changes could negatively affect our expenses and revenue. For example, new rules regarding the burden of proof in patent enforcement actions could significantly increase the cost of our enforcement actions, and new standards or limitations on liability for patent infringement could negatively impact our revenue derived from such enforcement actions.

Trial judges and juries often find it difficult to understand complex patent enforcement litigation, and as a result, we may need to appeal adverse decisions by lower courts in order to successfully enforce our patents.

It is difficult to predict the outcome of patent enforcement litigation at the trial level. It is often difficult for juries and trial judges to understand complex, patented technologies, and as a result, 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 delayed revenue. Although we diligently pursue enforcement litigation, we cannot predict with significant reliability the decisions made by juries and trial courts.

More patent applications are filed each year resulting in longer delays in getting patents issued by the USPTO.

Certain of our operating subsidiaries hold and continue to acquire pending patents. We have identified a trend of increasing patent applications each year, which we believe is resulting in longer delays in obtaining approval of pending patent applications. The application delays could cause delays in recognizing revenue from these patents and could cause us to miss opportunities to license patents before other competing technologies are developed or introduced into the market.

Federal courts are becoming more crowded, and as a result, patent enforcement litigation is taking longer.

Our patent enforcement actions are almost exclusively prosecuted in federal court. Federal trial courts that hear our patent enforcement actions also hear criminal cases. Criminal cases always take priority over our actions. As a result, it is difficult to predict the length of time it will take to complete an enforcement action. Moreover, we believe there is a trend in increasing numbers of civil lawsuits and criminal proceedings before federal judges, and as a result, we believe that the risk of delays in our patent enforcement actions will have a greater effect on our business in the future unless this trend changes.

Any reductions in the funding of the USPTO could have an adverse impact on the cost of processing pending patent applications and the value of those pending patent applications.

The assets of our operating subsidiaries consist of patent portfolios, including pending patent applications before the USPTO. The value of our patent portfolios is dependent upon the issuance of patents in a timely manner, and any reductions in the funding of the USPTO could negatively impact the value of our assets. Further, reductions in funding from Congress could result in higher patent application filing and maintenance fees charged by the USPTO, causing an unexpected increase in our expenses.

Competition is intense in the industries in which our subsidiaries do business and as a result, we may not be able to grow or maintain our market share for our technologies and patents.

We expect to encounter competition in the area of patent acquisition and enforcement as the number of companies entering this market is increasing. This includes competitors seeking to acquire the same or similar patents and technologies that we may seek to acquire. Entities including Allied Security Trust, Altitude Capital Partners, Collier IP, Intellectual Ventures, Millennium Partners, Open Innovation Network, RPX Corporation and Rembrandt IP Management compete in acquiring rights

to patents, and we expect more entities to enter the market. As new technological advances occur, many of our patented technologies may become obsolete before they are completely monetized. If we are unable to replace obsolete technologies with more technologically advanced patented technologies, then this obsolescence could have a negative effect on our ability to generate future revenues.

Our licensing business also competes with venture capital firms and various industry leaders for technology licensing opportunities. Many of these competitors may have more financial and human resources than we do. As we become more successful, we may find more companies entering the market for similar technology opportunities, which may reduce our market share in one or more technology industries that we currently rely upon to generate future revenue.

Our patented technologies face uncertain market value.

Our operating subsidiaries have acquired patents and technologies that are in the early stages of adoption in the commercial and consumer markets. Demand for some of these technologies is untested and is subject to fluctuation based upon the rate at which our licensees will adopt our patents and technologies in their products and services.

As patent enforcement litigation becomes more prevalent, it may become more difficult for us to voluntarily license our patents.

We believe that the more prevalent patent enforcement actions become, the more difficult it will be for us to voluntarily license our patents. As a result, we may need to increase the number of our patent enforcement actions to cause infringing companies to license the patent or pay damages for lost royalties. This may increase the risks associated with an investment in our company.

The markets served by our operating subsidiaries are subject to rapid technological change, and if our operating subsidiaries are unable to develop and acquire new technologies and patents, our ability to generate revenues could be substantially impaired.

The markets served by our operating subsidiaries and their licensees frequently undergo transitions in which products rapidly incorporate new features and performance standards on an industry-wide basis. Products for communications applications and high-speed computing applications, as well as other applications covered by our operating subsidiaries' intellectual property, are based on continually evolving industry standards. Our ability to compete in the future will depend on our ability to identify and ensure compliance with evolving industry standards. This will require our continued efforts and success in acquiring new patent portfolios with licensing and enforcement opportunities. While we expect for the foreseeable future to have sufficient liquidity and capital resources to maintain the level of acquisitions necessary to keep pace with these technological advances, various factors may require us to have greater liquidity and capital resources than we currently expect. If we are unable to acquire new patented technologies and patent portfolios, or to identify and ensure compliance with evolving industry standards, our ability to generate revenues could be substantially impaired and our business and financial condition could be materially harmed.

Uncertainty in global economic conditions could negatively affect our business, results of operations and financial condition.

Our revenue-generating opportunities depend on the use of our patented technologies by existing and prospective licensees, the overall demand for the products and services of our licensees, and on the overall economic and financial health of our licensees. Although economic conditions appear to be improving, recent uncertainties in global economic conditions have resulted in a tightening of the credit markets, a low level of liquidity in many financial

markets, and extreme volatility in the credit, equity and fixed income markets. If economic conditions do not continue to improve, or if they further deteriorate, many of our licensees' customers, which may rely on credit financing, may delay or reduce their purchases of our licensees' products and services. In addition, the use or adoption of our patented technologies is often based on current and forecasted demand for our licensees' products and services in the marketplace and may require companies to make significant initial commitments of capital and other resources. If negative conditions in the global credit markets delay or prevent our licensees' and their customers' access to credit, overall consumer spending on the products and services of our licensees may decrease and the adoption or use of our patented technologies may slow, respectively. Further, if the markets in which our licensees' participate do not continue to improve, or deteriorate further, this could negatively impact our licensees' long-term sales and revenue generation, margins and operating expenses, which could in turn have an adverse effect on our business, results of operations and financial condition.

In addition, we have significant patent-related intangible assets recorded on our consolidated balance sheets. We will



continue to evaluate the recoverability of the carrying amount of our patent-related intangible assets on an ongoing basis, and we may incur substantial impairment charges, which would adversely affect our consolidated financial results. There can be no assurance that the outcome of such reviews in the future will not result in substantial impairment charges. Impairment assessment inherently involves judgment as to assumptions about expected future cash flows and the impact of market conditions on those assumptions. Future events and changing market conditions may impact our assumptions as to prices, costs, holding periods or other factors that may result in changes in our estimates of future cash flows. Although we believe the assumptions we used in testing for impairment are reasonable, significant changes in any one of our assumptions could produce a significantly different result.

### Risks Related to Our Common Stock

The availability of shares for sale in the future could reduce the market price of our common stock.

In the future, we may issue securities to raise cash for operations and acquisitions. We may also pay for interests in additional subsidiary companies by using shares of our common stock or a combination of cash and shares of our common stock. We may also issue securities convertible into our common stock. Any of these events may dilute stockholders' ownership interests in our company and have an adverse impact on the price of our common stock.

In addition, sales of a substantial amount of our common stock in the public market, or the perception that these sales may occur, could reduce the market price of our common stock. This could also impair our ability to raise additional capital through the sale of our securities.

Delaware law and our charter documents contain provisions that could discourage or prevent a potential takeover of our company that might otherwise result in our stockholders receiving a premium over the market price of their shares.

Provisions of Delaware law and our certificate of incorporation and bylaws could make the acquisition of our company by means of a tender offer, proxy contest or otherwise, and the removal of incumbent officers and directors, more difficult. These provisions include:

Section 203 of the Delaware General Corporation Law, which prohibits a merger with a 15%-or-greater stockholder, such as a party that has completed a successful tender offer, until three years after that party became a 15%-or-greater stockholder;

amendment of our bylaws by the stockholders requires a two-thirds approval of the outstanding shares;

the authorization in our certificate of incorporation of undesignated preferred stock, which could be issued without stockholder approval in a manner designed to prevent or discourage a takeover;

provisions in our bylaws eliminating stockholders' rights to call a special meeting of stockholders, which could make it more difficult for stockholders to wage a proxy contest for control of our board of directors or to vote to repeal any of the anti-takeover provisions contained in our certificate of incorporation and bylaws; and

the division of our board of directors into three classes with staggered terms for each class, which could make it more difficult for an outsider to gain control of our board of directors.

Together, these provisions may make the removal of management more difficult and may discourage transactions that could otherwise involve payment of a premium over prevailing market prices for our common stock.

As a result of the redemption of Acacia Research-CombiMatrix common stock for the common stock of CombiMatrix, we may be subject to certain tax liability under the Internal Revenue Code.

Our distribution of the common stock of CombiMatrix Corporation, or CombiMatrix, upon completion of the transaction whereby we split-off CombiMatrix, a former component of our life science business, to become an independent publicly-held company, or the Split-Off Transaction, will be tax-free to us if the distribution qualifies under Sections 368 and 355 of the Internal Revenue Code of 1986, as amended, or the Code. If the Split-Off Transaction fails to qualify under Section 355 of the Code, corporate tax would be payable by the consolidated group as of the date of the Split-Off Transaction, of which we are the common parent, based upon the difference between the aggregate fair market value of the assets of CombiMatrix's business and the adjusted tax bases of such business to us prior to the redemption.

We received a private letter ruling from the Internal Revenue Service, or the IRS, to the effect that, among other things, the redemption would be tax free to us and the holders of Acacia Research-Acacia Technologies common stock and Acacia Research-CombiMatrix common stock under Sections 368 and 355 of the Code. The private letter ruling, while generally binding upon the IRS, was based upon factual representations and assumptions and commitments on our behalf with respect to future operations made in the ruling request. The IRS could modify or revoke the private letter ruling retroactively if the factual representations and assumptions in the request were materially incomplete or untrue, the facts upon which the private letter ruling was based were materially different from the facts at the time of the redemption, or if we do not comply with certain commitments made.

If the Split-Off Transaction fails to qualify under Section 355 of the Code, corporate tax, if any, would be payable by the consolidated group of which we are the common parent, as described above. As such, the corporate level tax would be payable by us. CombiMatrix has agreed however, to indemnify us for this and certain other tax liabilities if they result from actions taken by CombiMatrix. Notwithstanding CombiMatrix's agreement to indemnify us, under the Code's consolidated return regulations, each member of our consolidated group, including our company, will be severally liable for these tax liabilities. Further, we may be liable for additional taxes if we take certain actions within two years following the redemption, as more fully discussed in the immediately following risk factor. If we are found liable to the IRS for these liabilities, the resulting obligation could materially and adversely affect our financial condition, and we may be unable to recover on the indemnity from CombiMatrix.

Following the redemption of Acacia Research-CombiMatrix common stock for the common stock of CombiMatrix, we may be subject to certain tax liabilities under the Internal Revenue Code for actions taken by us or CombiMatrix following the redemption.

Even if the distribution of the common stock of CombiMatrix upon completion of the Split-Off Transaction qualifies under Section 368 and 355 of the Code, such distribution will be taxable to us if Section 355(e) of the Code applies to the distribution. Section 355(e) will apply to the distribution if 50% or more of our common stock or of CombiMatrix's common stock, by vote or value, is acquired by one or more persons, other than the holders of Acacia Research-CombiMatrix common stock who received the common stock of CombiMatrix in the redemption, acting pursuant to a plan or a series of related transactions that includes the redemption. Any shares of our common stock, of the Acacia Research-CombiMatrix common stock or of the common stock of CombiMatrix acquired directly or indirectly within two years before or after the redemption generally are presumed to be part of such a plan unless we can rebut that presumption. To prevent applicability of Section 355(e) or to otherwise prevent the distribution from failing to qualify under Section 355 of the Code, CombiMatrix has agreed that, until two years after the redemption, it will not take any of the following actions unless, prior to taking such action, it has obtained, and provided to us, a written opinion of tax counsel or a ruling from the IRS to the effect that such action will not cause the redemption to be taxable to us, which we refer to in this report collectively as Disqualifying Actions:

• merge or consolidate with another corporation;

• liquidate or partially liquidate;

• sell or transfer all or substantially all of its assets;

• redeem or repurchase its stock (except in certain limited circumstances); or

• take any other action which could reasonably be expected to cause Section 355(e) to apply to the distribution.

Further, if we take any Disqualifying Action, we may be subject to additional tax liability. Many of our competitors are not subject to similar restrictions and may issue their stock to complete acquisitions, expand their product offerings and speed the development of new technology. Therefore, these competitors may have a competitive advantage over us. Substantial uncertainty exists on the scope of Section 355(e), and we may have undertaken, may contemplate undertaking or may otherwise undertake in the future transactions which may cause Section 355(e) to apply to the redemption notwithstanding our desire or intent to avoid application of Section 355(e). Accordingly, we cannot provide you any assurance that we will not be liable for taxes if Section 355(e) applies to the redemption.

We may fail to meet market expectations because of fluctuations in quarterly operating results, which could cause the price of our common stock to decline.

Our reported revenues and operating results have fluctuated in the past and may continue to fluctuate significantly

from quarter to quarter in the future. It is possible that in future periods, revenues could fall below the expectations of securities analysts or investors, which could cause the market price of our common stock to decline. The following are among the factors that could cause our operating results to fluctuate significantly from period to period:

- the dollar amount of agreements executed in each period, which is primarily driven by the nature and characteristics of the technology being licensed and the magnitude of infringement associated with a specific licensee;

- the specific terms and conditions of agreements executed in each period and the periods of infringement contemplated by the respective payments;

- fluctuations in the total number of agreements executed;

- fluctuations in the sales results or other royalty-per-unit activities of our licensees that impact the calculation of license fees due;

- the timing of the receipt of periodic license fee payments and/or reports from licensees;

- fluctuations in the net number of active licensees period to period;

- costs related to acquisitions, alliances, licenses and other efforts to expand our operations;

- the timing of payments under the terms of any customer or license agreements into which our operating subsidiaries may enter; and

- expenses related to, and the timing and results of, patent filings and other enforcement proceedings relating to intellectual property rights, as more fully described in this section.

Technology company stock prices are especially volatile, and this volatility may depress the price of our common stock.

The stock market has experienced significant price and volume fluctuations, and the market prices of technology companies have been highly volatile. We believe that various factors may cause the market price of our common stock to fluctuate, perhaps substantially, including, among others, the following:

- announcements of developments in our patent enforcement actions;

- developments or disputes concerning our patents;

- our or our competitors' technological innovations;

- developments in relationships with licensees;

- variations in our quarterly operating results;

- our failure to meet or exceed securities analysts' expectations of our financial results;

- a change in financial estimates or securities analysts' recommendations;
- changes in management's or securities analysts' estimates of our financial performance;
- changes in market valuations of similar companies;
- the current sovereign debt crises affecting several countries in the European Union and concerns about sovereign debt of the United States;
- announcements by us or our competitors of significant contracts, acquisitions, strategic partnerships, joint ventures, capital commitments, new technologies, or patents; and

failure to complete significant transactions.

For example, the NASDAQ-100 Technology Sector Index (NDXT) had a range of \$1,118.52 - \$1,529.80 during the 52-weeks ended December 31, 2011 and the NASDAQ Composite Index (IXIC) had a range of \$2,298.89 - \$2,887.75 over the same period. Over the same period, our common stock fluctuated within a range of \$22.12 - \$47.24.

The financial crisis affecting the banking system and financial markets and the uncertainty in global economic conditions, which began in late 2007 and has continued throughout 2011, have resulted in a tightening in the credit markets, a low level of liquidity in many financial markets, and extreme volatility in the credit, equity and fixed income markets. As noted above, our stock price, like many others, has fluctuated significantly in recent periods and if investors have concerns that our business, operating results and financial condition will be negatively impacted by global economic conditions, our stock price could continue to fluctuate significantly in future periods.

In addition, we believe that fluctuations in our stock price during applicable periods can also be impacted by court rulings and/or other developments in our patent licensing and enforcement actions. Court rulings in patent enforcement actions are often difficult to understand, even when favorable or neutral to the value of our patents and our overall business, and we believe that investors in the market may overreact, causing fluctuations in our stock prices that may not accurately reflect the impact of court rulings on our business operations and assets.

In the past, companies that have experienced volatility in the market price of their stock have been the objects of securities class action litigation. If our common stock was the object of securities class action litigation, it could result in substantial costs and a diversion of management's attention and resources, which could materially harm our business and financial results.

Any future material weaknesses or deficiencies in our internal control over financial reporting could harm stockholder and business confidence in our financial reporting, our ability to obtain financing and other aspects of our business.

As described in Item 9A, we identified a material weakness as a result of the use of certain net operating loss carry forwards related to the 2000 tax year reflected in our 2001 tax return (prepared by external advisors) relied on by us in connection with the preparation of the third quarter 2011 tax provision, that based on new information, were subsequently determined to be currently unsupported. Since the date we identified this material weakness, we have taken steps to engage a third party tax consulting firm to assist us on a quarterly basis with the preparation and review of our interim and year-end tax provision calculations. While we had procedures and processes to apply accounting standards to complex intra period tax provision calculations, we did not have adequate resources to provide for a detailed analysis, documentation and review of the 2000 and 2001 historical tax returns giving rise to the currently unsupported tax attributes. The material weakness led to a misstatement of noncash tax expense included in the tax provisions for the three and nine months ended September 30, 2011. The resulting offsetting adjustment was credited to additional paid-in capital, not taxes payable, and accordingly, does not reflect cash taxes payable. No financial statements prior to the financial statements for the quarterly period ended September 30, 2011 were affected by the issue described above. The effect on disclosures prior to the quarterly period ended September 30, 2011 was not material.

Given this material weakness, management determined that we did not maintain effective internal control over financial reporting. The existence of one or more material weakness or significant deficiency could result in future errors in our consolidated financial statements. Substantial costs and resources may be required to rectify any internal control deficiencies. If we fail to achieve and maintain the adequacy of our internal controls in accordance with

applicable standards, we may be unable to conclude on an ongoing basis that we have effective internal controls over financial reporting. If we cannot produce reliable financial reports, our business and financial condition could be harmed, investors could lose confidence in our reported financial information, and the market price of our stock could decline significantly. In addition, our ability to obtain additional financing to operate and expand our business, or obtain additional financing on favorable terms, could be materially and adversely affected, which, in turn, could materially and adversely affect our business, our financial condition and the market value of our securities. Moreover, our reputation with customers, lenders, investors, securities analysts and others may be adversely affected.

We do not anticipate declaring any cash dividends on our common stock.

We have never declared or paid cash dividends on our common stock and do not plan to pay any cash dividends in the near future. Our current policy is to retain all funds and any earnings for use in the operation and expansion of our business. If we do not pay dividends, our stock may be less valuable to you because a return on your investment will only occur if our stock price appreciates.



#### ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

#### ITEM 2. PROPERTIES

Our principal executive, corporate and administrative offices are located in Newport Beach, California, where we lease approximately 15,559 square feet of office space, under a lease agreement that expires in June 2016. Our primary operating subsidiary, Acacia Research Group, LLC, and its subsidiaries, are headquartered in Frisco, Texas, where we lease approximately 4,567 square feet of office space, under a lease agreement that expires in December 2013. Certain of our operating subsidiaries also maintain additional leased office space in Northbrook, Illinois, Atlanta, Georgia, and Alexandria, Virginia. We believe that our facilities are adequate, suitable and of sufficient capacity to support our immediate needs.

#### ITEM 3. LEGAL PROCEEDINGS

In the ordinary course of business, we are the subject of, or party to, various pending or threatened legal actions, including various counterclaims in connection with our intellectual property enforcement activities. We believe that any liability arising from these actions will not have a material adverse effect on our consolidated financial position, results of operations or cash flows.

In connection with any of our patent enforcement actions, it is possible that a defendant may request and/or a court may rule that we have 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, and if required to be paid by us or our operating subsidiaries, could materially harm our operating results and our financial position.

#### ITEM 4. MINE SAFETY DISCLOSURES

## PART II

## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

## Price Range of Common Stock

Our common stock trades on The NASDAQ Global Select Market under the symbol "ACTG." Prior to December 16, 2002, our only class of common stock traded on the NASDAQ National Market System under the symbol "ACRI."

The high and low bid prices for our common stock as reported by The NASDAQ Global Select Market for the periods indicated are shown in the table below. Such prices are inter-dealer prices without retail markups, markdowns or commissions and may not necessarily represent actual transactions.

|      | 2011              |                  |                   |                  | 2010              |                  |                   |                  |
|------|-------------------|------------------|-------------------|------------------|-------------------|------------------|-------------------|------------------|
|      | Fourth<br>Quarter | Third<br>Quarter | Second<br>Quarter | First<br>Quarter | Fourth<br>Quarter | Third<br>Quarter | Second<br>Quarter | First<br>Quarter |
| High | \$43.83           | \$47.24          | \$41.89           | \$36.44          | \$30.20           | \$17.75          | \$16.32           | \$11.34          |
| Low  | \$28.32           | \$32.39          | \$31.35           | \$22.12          | \$17.80           | \$12.87          | \$10.30           | \$7.79           |

We did not repurchase any shares of common stock during the fiscal year ended December 31, 2011. The information regarding securities authorized for issuance under our equity compensation plans is set forth in Item 12 of this annual report and is incorporated herein by reference.

## STOCK PRICE PERFORMANCE GRAPH

The following stock price performance graph shall not be deemed "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liabilities under that Section and shall not be deemed to be incorporated by reference into any of our filings under the Securities Act of 1933, as amended.

The Stock Performance Graph depicted below compares the yearly change in our cumulative total stockholder return for the last five fiscal years with the cumulative total return of The NASDAQ Stock Market (U.S.) Composite Index and the NASDAQ-100 Technology Sector Index.

|   | 2007  | 2008 | 2009  | 2010  | 2011  |
|---|-------|------|-------|-------|-------|
| Acacia Research Corporation common stock  | \$67  | \$23 | \$68  | \$194 | \$273 |
| Nasdaq Composite Index (IXIC)             | \$108 | \$59 | \$106 | \$129 | \$121 |
| NASDAQ-100 Technology Sector Index (NDXT) | \$110 | \$65 | \$94  | \$110 | \$108 |

The graph covers the period from December 31, 2006 to December 31, 2011. Cumulative total returns are calculated assuming that \$100 was invested on December 31, 2006, in our common stock, in the NASDAQ Composite Index, and in the NASDAQ-100 Technology Sector Index, and that all dividends, if any, were reinvested. Stockholder returns over the indicated period should not be considered indicative of future stock prices or shareholder returns.

On February 27, 2012, there were approximately 128 owners of record of our common stock. The majority of the outstanding shares of our common stock are held by a nominee holder on behalf of an indeterminable number of ultimate beneficial owners.

#### Dividend Policy

To date, we have not declared or paid any cash dividends with respect to our common stock, and the current policy of our board of directors is to retain earnings, if any, to provide for our growth and the growth of our operating subsidiaries. Consequently, we do not expect to pay any cash dividends in the foreseeable future. Further, our proposed operations may not generate the revenues and cash flow necessary to declare a cash dividend or we may not have legally available funds to pay dividends.

## ITEM 6. SELECTED FINANCIAL DATA

The consolidated selected balance sheet data as of December 31, 2011 and 2010 and the consolidated selected statements of operations data for the years ended December 31, 2011, 2010 and 2009 set forth below have been derived from our audited consolidated financial statements included elsewhere herein, and should be read in conjunction with those financial statements (including notes thereto). The consolidated selected balance sheet data as of December 31, 2009, 2008 and 2007 and the consolidated selected statements of operations data for the years ended December 31, 2008 and 2007 have been derived from audited consolidated financial statements not included herein, but which were previously filed with the SEC.

Consolidated Statements of Operations Data  
(In thousands, except share and per share data)

|   | For the Years Ended December 31, |           |          |          |          |
|---|----------------------------------|-----------|----------|----------|----------|
|   | 2011                             | 2010      | 2009     | 2008     | 2007     |
| Revenues and other operating income <sup>(2)</sup>  | \$184,707                        | \$131,829 | \$67,340 | \$48,227 | \$52,597 |
| Inventor royalties and contingent legal fees expense - patents <sup>(2)</sup>                             | 91,669                           | 45,198    | 31,618   | 27,424   | 29,224   |
| Litigation and licensing expenses - patents   | 13,005                           | 13,891    | 14,055   | 6,900    | 7,799    |
| Amortization of patents   | 9,745                            | 6,931     | 4,634    | 6,043    | 5,583    |
| Marketing, general and administrative expenses (including non-cash stock compensation expense)            | 35,693                           | 25,067    | 21,070   | 21,130   | 18,381   |
| Research, consulting and other expenses - business development  | 4,338                            | 2,121     | 1,689    | 933      | 886      |
| Operating income (loss)   | 30,257                           | 38,621    | (5,726)  | (14,203) | (9,511)  |
| Other income, net   | 96                               | 135       | 302      | 570      | 2,359    |
| Income (loss) from continuing operations before provision for income taxes                                | 30,353                           | 38,756    | (5,424)  | (13,633) | (7,152)  |
| Provision for income taxes  | (8,708)                          | (1,740)   | (209)    | (124)    | (207)    |
| Net income (loss) from continuing operations including noncontrolling interests in operating subsidiaries | 21,645                           | 37,016    | (5,633)  | (13,757) | (7,359)  |
| Net income attributable to noncontrolling interests in operating subsidiaries                             | (539)                            | (2,965)   | (5,657)  | —        | —        |
| Net income (loss) from continuing operations attributable to Acacia Research Corporation                  | 21,106                           | 34,051    | (11,290) | (13,757) | (7,359)  |
| Discontinued operations <sup>(1)</sup>  | —                                | —         | —        | —        | (8,086)  |
| Net income (loss) attributable to Acacia Research Corporation   | 21,106                           | 34,051    | (11,290) | (13,757) | (15,445) |
| Net income (loss) per common share:   |                                  |           |          |          |          |
| Net income (loss) from continuing operations attributable to Acacia Research Corporation                  |                                  |           |          |          |          |
| Acacia Research Corporation common stock - basic  | \$0.53                           | \$1.05    | \$(0.38) | \$(0.47) | \$(0.26) |
| Acacia Research Corporation common stock - diluted  | \$0.51                           | \$0.97    | \$(0.38) | \$(0.47) | \$(0.26) |
| Discontinued operations <sup>(1)</sup>  |                                  |           |          |          |          |
| Acacia Research - CombiMatrix stock <sup>(1)</sup>  | —                                | —         | —        | \$—      | \$(0.14) |

Weighted-average number of common and potential common shares used in computation of income (loss) per common share :

Acacia Research Corporation common stock:

|  |            |            |            |            |            |
|--|------------|------------|------------|------------|------------|
| Basic  | 39,743,433 | 32,306,322 | 29,914,801 | 29,423,998 | 28,503,314 |
| Diluted  | 41,258,297 | 35,081,611 | 29,914,801 | 29,423,998 | 28,503,314 |
| Acacia Research - CombiMatrix stock <sup>(1)</sup> : |            |            |            |            |            |
| Basic and diluted                                    | —          | —          | —          | —          | 55,862,707 |

## Consolidated Balance Sheet Data (In thousands)

|  | At December 31, |           |          |          |          |
|--|-----------------|-----------|----------|----------|----------|
|  | 2011            | 2010      | 2009     | 2008     | 2007     |
| Total assets                                       | \$352,877       | \$134,784 | \$78,256 | \$73,074 | \$71,051 |
| Total liabilities                                  | \$30,765        | \$20,931  | \$22,287 | \$14,527 | \$6,247  |
| Noncontrolling interests in operating subsidiaries | \$2,163         | \$2,982   | \$2,507  | \$—      | \$—      |
| Stockholders' equity                               | \$319,949       | \$110,871 | \$53,462 | \$58,547 | \$64,804 |

(1) Discontinued operations reflects the impact of the Split-Off Transaction described below.

(2) Includes verdict insurance proceeds and related costs as described under "Consolidated Results of Operations" below.

## Factors Affecting Comparability:

The increase in revenues and other operating income in fiscal year 2011, as compared to fiscal year 2010, was due primarily to an increase in the average revenue per executed agreement, which was partially offset by a decrease in the number of agreements executed in fiscal year 2011. The increase in revenues in fiscal year 2010, as compared to fiscal year 2009, was due primarily to an increase in the average revenue per executed agreement and an increase in the number of new licensing agreements executed during the period. In fiscal 2011 and 2010, we entered into a number of separate significant revenue agreements with unrelated third parties resolving pending patent matters.

Net income attributable to noncontrolling interests in operating subsidiaries, or net income attributable to noncontrolling interests, represents the portion of net income or loss from the licensing and enforcement activities of our majority-owned operating subsidiaries that are distributable to the operating subsidiary's noncontrolling interest holders pursuant to the underlying operating agreements.

Inventor royalties, net income attributable to noncontrolling interests, and contingent legal fees, on a combined basis, increased 89% in fiscal year 2011, as compared to fiscal year 2010, primarily reflecting the increase in related revenues for the same periods. The increase was greater than the percentage increase in related revenues for the same periods, due to, in the aggregate, lower or no inventor royalty or contingent legal fee arrangement obligations associated with a higher percentage of the portfolios generating revenues in fiscal year 2010, as compared to fiscal year 2011.

Inventor royalties, net income attributable to noncontrolling interests, and contingent legal fees, on a combined basis, increased 30% in fiscal year 2010, as compared to fiscal year 2009, primarily reflecting the increase in related revenues for 2010. The increase was less than the percentage increase in related revenues due to, in the aggregate, lower or no inventor royalty or contingent legal fee arrangement obligations associated with certain of the portfolios generating revenues in fiscal year 2010, as compared to fiscal year 2009.

The increase in provision for income taxes in fiscal year 2011 primarily reflects the impact of foreign withholding taxes, totaling \$7.6 million, withheld by the applicable foreign tax authority pursuant to the requirements of the applicable income tax convention on payments in connection with certain licensing arrangements executed during fiscal year 2011.

In fiscal year 2011 and 2010, amortization of patents included the acceleration of patent amortization related to non-recoupable up-front patent portfolio acquisition costs that were recovered, pursuant to the provisions of the underlying inventor agreements, totaling \$3.1 million and \$1.2 million, respectively.

Marketing, general and administrative expenses included non-cash stock compensation expense totaling \$13.6 million, \$7.1 million, \$7.1 million, \$7.4 million and \$5.9 million in 2011, 2010, 2009, 2008 and 2007, respectively.

In January 2006, our board of directors approved a plan for our former wholly owned subsidiary, CombiMatrix Corporation, or CombiMatrix, the primary component of our former life science business, known as the CombiMatrix group, to become an independent publicly-held company. On August 15, 2007, CombiMatrix was split-off from us through the redemption of all outstanding shares of Acacia Research-CombiMatrix common stock in exchange for the distribution of new shares of CombiMatrix common stock. We refer to this transaction as the Split-Off Transaction. Accordingly, the assets, liabilities, results of operations and cash flows for the CombiMatrix group are presented as “Discontinued Operations,” for the applicable historical periods above.

Pursuant to the terms of the Split-Off Transaction, all outstanding shares of Acacia Research-CombiMatrix common stock were redeemed, and the only class of common stock currently outstanding is our common stock.



## ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our consolidated financial statements included elsewhere in this Annual Report on Form 10-K. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors including the risks we discuss in Item 1A, “Risk Factors”, and elsewhere herein.

### General

Our operating subsidiaries acquire, develop, license and enforce patented technologies. 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 own or control. 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, if necessary, with the enforcement against unauthorized users of their patented technologies. We are a leader in licensing patented technologies and have established a proven track record of licensing success with over 1,080 license agreements executed to date, across 112 of our technology license programs. Currently, on a consolidated basis, our operating subsidiaries own or control the rights to over 200 patent portfolios, which include U.S. patents and certain foreign counterparts, covering technologies used in a wide variety of industries.

The intellectual property acquisition, development, licensing and enforcement business conducted by our operating subsidiaries, is described more fully in Item 1, “Business,” of this annual report.

### Overview

Our operating activities for the periods presented were principally focused on the continued development, licensing and enforcement of the patent portfolios owned or controlled by our operating subsidiaries, including the continued pursuit of our ongoing technology licensing and enforcement programs and the commencement of new technology licensing and enforcement programs. In addition, we continued our focus on business development, including the acquisition of several additional patent portfolios by certain of our operating subsidiaries and the continued pursuit of additional opportunities to acquire patent portfolios or partner with patent owners and continue our unique intellectual property licensing, development and enforcement activities.

Activities during the periods presented included the following:

|   | 2011       | 2010       | 2009      |
|---|------------|------------|-----------|
| Revenues and other operating income (in thousands)  | \$ 184,707 | \$ 131,829 | \$ 67,340 |
| New agreements executed   | 125        | 221        | 117       |
| Licensing and enforcement programs generating revenues - during the respective period           | 56         | 58         | 30        |
| Licensing and enforcement programs with initial revenues  | 21         | 31         | 12        |
| New patent portfolios   | 40         | 36         | 30        |
| Cumulative number of licensing and enforcement programs generating revenues - inception to date | 112        | 91         | 60        |

Our revenues historically have fluctuated quarterly, and can vary significantly, based on the dollar amount of agreements executed each period, fluctuations in the total number of agreements executed each period, the number of patented technology portfolios owned or controlled by our operating subsidiaries, the timing, results and uncertainties associated with patent filings and other enforcement proceedings relating to our intellectual property rights, the number of active licensing and enforcement programs, the relative maturity of active licensing programs during the applicable periods and other external factors. Additional factors impacting the amount of revenues recognized each period are discussed below. Although revenues from one or more of our patents or patent portfolios may be significant in a specific reporting period, we believe that none of our individual patents or patent portfolios is individually significant to our licensing and enforcement business as a whole.

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 |    |
|--------------------|---------------------------------|----------|----|
| December 31, 2011  | \$184,707                       | 4        | %  |
| September 30, 2011 | 177,014                         | (1       | )% |
| June 30, 2011      | 177,927                         | 16       | %  |
| March 31, 2011     | 153,187                         | 16       | %  |
| December 31, 2010  | 131,829                         | 96       | %  |
| December 31, 2009  | 67,340                          | —        |    |

Revenues in fiscal year 2011 included fees from the following technology licensing and enforcement programs:

- Audio Communications Fraud Detection technology
- Biosensor technology<sup>(1)</sup>
- Camera Support technology
- Catheter Insertion technology<sup>(1)</sup>
- Computer Architecture and Power Management technology<sup>(1)</sup>
- Computer Graphics technology
- Data Compression technology<sup>(1)</sup>
- Database Retrieval technology<sup>(1)</sup>
- DDR SDRAM technology<sup>(1)</sup>
- Digital Signal Processing Architecture technology
- Digital Video Enhancement technology
- Disk Array Systems & Storage Area Network technology
- DMT® technology
- Document Generation technology
- DDR SDRAM<sup>(1)</sup>
- DRAM Memory architecture technology
- Electronic Message Advertising technology
- Facilities Operation Management System technology
- High Performance Computer Architecture technology
- Image Resolution Enhancement technology
- Impact Instrument technology
- Improved Commercial Print technology
- Improved Lighting technology
- Interactive Content in a Cable Distribution System technology<sup>(1)</sup>
- Interactive Mapping technology
- Item Identification technology
- Lighting Ballast technology
- Magnetic Storage technology<sup>(1)</sup>
- Manufacturing Data Transfer technology
- MEMS technology<sup>(1)</sup>
- Messaging technology<sup>(1)</sup>
- Microprocessor Enhancement technology
- Mobile Computer Synchronization technology
- Network Monitoring technology
- Network Remote Access technology
- NOR Flash technology<sup>(1)</sup>
- Online Auction Guarantee technology
- Optical Recording technology<sup>(1)</sup>
- Optical Switching technology
- Pop-up Internet Advertising technology
- Power Management Within Integrated Circuits technology<sup>(1)</sup>
- Power-over-Ethernet technology<sup>(1)</sup>
- Rule Based Monitoring technology
- Semiconductor Manufacture technology<sup>(1)</sup>
- Shape Memory Alloys technology<sup>(1)</sup>
- Short Messaging in Cellular Telephony technology
- Software Installation technology
- Storage technology
- Targeted Content Delivery technology<sup>(1)</sup>
- Telematics technology
- User Programmable Engine Control technology<sup>(1)</sup>
- Video Encoding technology<sup>(1)</sup>
- Virtual Server technology
- Visual Data Evaluation technology

- Lighting Control technology<sup>(1)</sup>
- Location Based Services technology
- Website Crawling technology

Revenues in fiscal year 2010 included fees from the following technology licensing and enforcement programs:

- Audio Communications Fraud Detection technology
- Authorized Spending Accounts technology
- Automatic Image Labeling technology<sup>(1)</sup>
- Business Process Modeling (BPM) technology<sup>(1)</sup>
- Camera Support technology<sup>(1)</sup>
- Child-friendly Secure Mobile Phones technology
- Compiler technology<sup>(1)</sup>
- Computer Graphics technology<sup>(1)</sup>
- Credit Card Fraud Protection technology
- Database Access technology
- Database Management technology
- Digital Signal Processing Architecture technology<sup>(1)</sup>
- Digital Video Enhancement technology<sup>(1)</sup>
- Disk Array Systems & Storage Area Network technology<sup>(1)</sup>
- DMT® technology
- Document Generation technology
- DRAM Memory Architecture technology<sup>(1)</sup>
- Encrypted Media & Playback Devices technology
- Facilities Operation Management System technology<sup>(1)</sup>
- File Locking In Shared Storage Networks technology
- High Performance Computer Architecture technology
- Image Resolution Enhancement technology
- Improved Commercial Print technology<sup>(1)</sup>
- Improved Lighting technology<sup>(1)</sup>
- Information Portal Software technology<sup>(1)</sup>
- Interactive Mapping technology<sup>(1)</sup>
- Internet Radio Advertising technology
- Item Identification technology<sup>(1)</sup>
- Lighting Ballast technology
- Location Based Services technology
- Manufacturing Data Transfer technology<sup>(1)</sup>
- Medical Image Stabilization technology
- Medical Monitoring technology<sup>(1)</sup>
- Microprocessor Enhancement technology<sup>(1)</sup>
- Mobile Computer Synchronization technology<sup>(1)</sup>
- Mutli-Dimensional Database Compression technology
- Network Monitoring technology<sup>(1)</sup>
- Network Remote Access technology<sup>(1)</sup>
- Online Ad Tracking technology<sup>(1)</sup>
- Online Auction Guarantee technology
- Online Newsletters with Links technology<sup>(1)</sup>
- Online Promotion technology
- Optical Switching technology<sup>(1)</sup>
- Picture Archiving & Communications System technology
- Pop-up Internet Advertising technology
- Projector technology
- Records Management technology<sup>(1)</sup>
- Rule Based Monitoring technology
- Short Messaging in Cellular Telephony technology<sup>(1)</sup>
- Software Installation technology<sup>(1)</sup>
- Storage technology
- Telematics technology
- Vehicle Occupant Sensing technology<sup>(1)</sup>
- Virtual Computer Workspace technology
- Virtual Server technology
- Visual Data Evaluation technology<sup>(1)</sup>
- Website Crawling technology<sup>(1)</sup>
- Wireless Multimedia technology<sup>(1)</sup>

Revenues in fiscal year 2009 included fees from the following technology licensing and enforcement programs:

- Audio Communications Fraud Detection technology
- Audio Video Enhancement & Synchronization technology
- Authorized Spending Accounts technology
- Child-friendly Secure Mobile Phones technology<sup>(1)</sup>
- Credit Card Fraud Protection technology
- Database Access technology<sup>(1)</sup>
- DMT® technology
- Document Generation technology<sup>(1)</sup>
- Location Based Services technology
- Medical Image Stabilization technology
- Multi-Dimensional Database Compression technology<sup>(1)</sup>
- Online Auction Guarantee technology
- Online Promotion technology<sup>(1)</sup>
- Picture Archiving & Communications System technology
- Pop-up Internet Advertising technology
- Projector technology

- eCommerce Pricing technology
- Encrypted Media & Playback Devices technology<sup>(1)</sup>
- Heated Surgical Blades technology<sup>(1)</sup>
- High Performance Computer Architecture technology<sup>(1)</sup>
- Remote Management of Imaging Devices technology
- Rule Based Monitoring technology
- Storage technology
- Surgical Catheter technology<sup>(1)</sup>

- High Quality Image Processing technology
- Internet Radio Advertising technology<sup>(1)</sup>
- Lighting Ballast technology<sup>(1)</sup>
- Telematics technology
- Vehicle maintenance technology
- Virtual Server technology<sup>(1)</sup>

<sup>(1)</sup> Initial revenues recognized during the applicable period.

#### Summary of Results of Operations - For Fiscal Years 2011, 2010 and 2009

(In thousands, except percentage change values)

|   | Fiscal Year |           |          | % Change      |               |   |
|---|-------------|-----------|----------|---------------|---------------|---|
|   | 2011        | 2010      | 2009     | 2011 vs. 2010 | 2010 vs. 2009 |   |
| Revenues  | \$172,256   | \$131,829 | \$67,340 | 31            | % 96          | % |
| Verdict insurance proceeds                                    | 12,451      | —         | —        | 100           | % 100         | % |
| Total revenues and other operating income                     | 184,707     | 131,829   | 67,340   | 40            | % 96          | % |
| Operating costs and expenses**                                | 154,450     | 93,208    | 73,066   | 66            | % 28          | % |
| Operating income (loss)                                       | 30,257      | 38,621    | (5,726)  | (22)          | % *           |   |
| Provision for income taxes                                    | (8,708)     | (1,740)   | (209)    | *             | % *           |   |
| Net income attributable to noncontrolling interests***        | (539)       | (2,965)   | (5,657)  | (82)          | % (48)        | % |
| Net income (loss) attributable to Acacia Research Corporation | 21,106      | 34,051    | (11,290) | (38)          | % *           |   |

\* Percentage change in excess of 300%

\*\* Includes non-cash stock compensation charges of \$13.6 million, \$7.1 million and \$7.1 million in fiscal years 2011, 2010 and 2009, respectively, included in Marketing, General and Administrative expense in the statements of operations. Includes non-cash patent amortization expenses of \$9.7 million, \$6.9 million and \$4.6 million in fiscal years 2011, 2010 and 2009, respectively.

\*\*\*Refer to Note 1 to the notes to consolidated financial statements included elsewhere in this annual report for additional information.

#### Overview - Fiscal year 2011 compared with Fiscal Year 2010

Revenues and other operating income increased \$52.9 million, or 40%, due primarily to an increase in the average revenue per executed agreement, which was partially offset by a decrease in the total number of agreements executed in fiscal year 2011.

Other operating income includes verdict insurance proceeds totaling \$12.5 million received during fiscal year 2011, as described below under "Consolidated Results of Operations."

#### Cost of Revenues and Other Operating Expenses:

Inventor royalties, net income attributable to noncontrolling interests or noncontrolling interests, contingent legal fees, and applicable verdict insurance proceeds related costs, on a combined basis, increased \$43.3 million, or 89%, primarily reflecting the increase in related revenues and other operating income for fiscal year 2011. The increase was greater than the percentage increase in related revenues and other operating income due to, in the aggregate, lower or no inventor royalty or contingent legal fee arrangement obligations associated with a higher percentage of the portfolios generating revenues in fiscal year 2010, as compared to the portfolios generating revenues and other operating income in fiscal year 2011.

Verdict insurance proceeds related costs for fiscal year 2011 totaled \$7.7 million, as described below under "Consolidated Results of Operations".

Litigation and licensing expenses-patents decreased \$886,000, or 6%, to \$13.0 million, due to a lower net level of litigation support, third party technical consulting and professional expert expenses incurred in fiscal year 2011. Marketing, general and administrative expenses increased \$10.6 million, or 42% to \$35.7 million, due primarily to an increase in non-cash stock compensation charges resulting from an increase in the average grant date fair value of restricted shares expensed during fiscal year 2011, an increase in annual one-time variable performance based compensation charges, an increase in other variable performance based compensation charges, a net increase in business development, engineering and other personnel since the end of the prior year period, and a net increase in corporate, general and administrative costs.



Patent amortization increased \$2.8 million, or 41% to \$9.7 million, due primarily to the acceleration of patent amortization related to recoupable up-front patent portfolio acquisition costs that were recovered in fiscal year 2011 and an increase in amortization related to new patent portfolios acquired in fiscal year 2011.

The increase in provision for income taxes primarily reflects the impact of foreign withholding taxes, totaling \$7.6 million, withheld by the applicable foreign tax authority pursuant to the requirements of the applicable income tax convention on payments in connection with certain licensing arrangements executed during fiscal year 2011.

#### Overview - Fiscal Year 2010 compared with Fiscal Year 2009

Revenues increased \$64.5 million, or 96%, due primarily to an increase in the average revenue per executed agreement and an increase in the total number of new licensing agreements executed during the period.

#### Cost of Revenues and Other Operating Expenses:

Inventor royalties, net income attributable to noncontrolling interests, and contingent legal fees, on a combined basis, increased 30%, primarily reflecting the increase in related revenues for 2010. The increase was less than the percentage increase in related revenues due to, in the aggregate, lower or no inventor royalty or contingent legal fee arrangement obligations associated with certain of the portfolios generating revenues in fiscal year 2010, as compared to fiscal year 2009.

Litigation and licensing expenses-patents decreased \$164,000, or 1% to \$13.9 million, due to a lower net level of litigation support, third party technical consulting and professional expert expenses incurred in fiscal year 2010. The decrease was partially offset by an increase in litigation and licensing expenses incurred in connection with our continued investment in ongoing licensing and enforcement programs and new licensing and enforcement programs commenced since the end of the prior year period.

Marketing, general and administrative expenses increased \$4.0 million, or 19% to \$25.1 million, due primarily to an increase in variable performance-based compensation costs, an increase in other variable personnel costs, and a minor net increase in engineering and licensing personnel, non-cash stock compensation charges and state related gross receipts taxes incurred on certain licensing revenues recognized in fiscal year 2010.

Patent amortization increased \$2.3 million, or 50%, to \$6.9 million, due primarily to the acceleration of patent amortization related to recoupable up-front patent portfolio acquisition costs that were recovered in fiscal year 2010 and an increase in amortization related to new patent portfolios acquired in fiscal year 2010.

The increase in our tax expense in fiscal year 2010, as compared to fiscal year 2009, reflects the impact of the suspension of the use of NOLs in California, as described below, and the calculation of tax expense for financial reporting purposes without the excess tax benefit related to the exercise and vesting of equity-based incentive awards in fiscal year 2010.

#### Patent Licensing and Enforcement

We expect patent-related legal expenses to continue to fluctuate from period to period based on the factors summarized below, in connection with future trial dates and our current and future patent acquisition, development, 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, 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, case-related audio/video presentations and other litigation support and administrative costs could increase our operating costs and decrease our revenue generating opportunities;

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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;

New legislation, regulations or rules related to enforcement actions could significantly increase our operating costs and decrease our revenue generating opportunities; and

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.

## Investments in Patent Portfolios

Our operating subsidiaries intend to sustain the long term growth of our intellectual property licensing and enforcement business through the continued identification and acquisition of, or the rights to, additional core patented technologies, across a wide range of technology areas that have been, or are anticipated to be, widely adopted by third parties in connection with the manufacture or sale of products and services.

In fiscal years 2011, 2010 and 2009, certain of our operating subsidiaries continued to execute their business strategy in the area of patent portfolio acquisitions. In fiscal year 2011, we acquired a total of 40 new patent portfolios with applications over a wide range of technology areas, as compared to 36 new patent portfolios, and 30 new patent portfolios in fiscal years 2010 and 2009, respectively. Patent portfolio acquisition costs in fiscal year 2011 totaled \$14.7 million, as compared to \$8.2 million and \$9.6 million in fiscal years 2010 and 2009, respectively.

In addition to trailing twelve-month revenues as discussed above, we also measure and assess the performance and growth of the patent licensing and enforcement business conducted by our operating subsidiaries based on the number of patent portfolios owned or controlled by our operating subsidiaries on a consolidated basis. As of December 31, 2011, 2010 and 2009, on a consolidated basis, our operating subsidiaries owned or controlled the rights to approximately 200, 171, and 138 patent portfolios, respectively, which include U.S. patents and certain foreign counterparts covering technologies used in a wide variety of industries.

An increasing number of the patent portfolios acquired during the periods presented were acquired in connection with partnering arrangements executed with major technology companies, reflecting our continued identification of opportunities to partner not only with individual inventors and small to medium size technology companies, but also major well established technology companies with larger patent portfolios.

Renesas Electronics Corporation. In August 2010, we entered into a strategic patent licensing alliance with Renesas Electronics Corporation, a premier supplier of advanced semiconductor solutions. Pursuant to this relationship, those patents selected by us and Renesas Electronics from Renesas Electronics' portfolio of over 40,000 patents and patent applications will be assigned to us for patent licensing.

In general, the majority of acquisition costs incurred during the periods presented are subject to contractual provisions providing for higher percentage returns to our operating subsidiaries early in the licensing and enforcement program until such initial upfront acquisition costs are fully recovered. Of the \$9.6 million in patent acquisition costs invested in fiscal year 2009, we have a contractual guarantee to receive a minimum of \$5.0 million in net proceeds, which significantly reduces the risk associated with these initial investments.

The higher level of acquisition costs incurred in the periods presented in part, reflects our continued identification of opportunities to partner with individual inventors, small technology companies, research laboratories, universities, and major technology companies and exchange up front, advanced royalty payments to patent owners, for a reduced future inventor royalty percentage, resulting in the potential for higher returns on our investments in connection with future licensing and enforcement activities.

Acquisitions in fiscal year 2011 included the acquisition of, or the acquisition of rights to, 40 patent portfolios covering a variety of applications, including the following:

**Flash Memory.** This patented technology consists of 16 flash memory patents relating to architecture, manufacturing and operation of flash memory, including NOR flash. The patented technology covers techniques for enhancing the

performance and reliability of the flash memory cell. NOR flash memory is extensively used in cell phones.

Cellular Air Interface. This patented technology has 200 patents covering 3G and 4G cellular air interface and infrastructure technologies. These technologies may be found in mobile handsets, base stations, routers and other related equipment.

Mobile Computer Synchronization. This patented technology relates to mobile applications for use in smartphones and other wireless computing devices.

Cellular. Acquired 6 patent portfolios relating to cellular technology, mobile handsets, wireless local area networks (WLAN), video processing, IPTV technology, and location based services technology.

Additional Patent Portfolios Acquired. We also acquired, or acquired the rights to, additional patent portfolios related to Inhaler Drug Delivery technology, Enhanced Screensaver technology, Hearing Aid technology, Semiconductor Memory and Process technology, Online Gaming technology, Infusion Pump technology, Optical Networking technology, Circuit and Packaging technology, Radiation Therapy technology, Prescription Lens technology, Application Authentication technology, DDR SDRAM technology, Power-over-Ethernet technology, Targeted Marketing technology, Targeted Internet Advertising technology, Microprocessor and DSP technology, Data Compression technology, Heart-Lung Machine technology, Voice-Over-IP technology, HDTV technology, Mobile Communications technology, DRAM technology, Advanced Memory and Processor technology, 3G & 4G Wireless technology, Domain Name Redirection technology, Printer Document Assembly technology, Semiconductor Processing technology, Semiconductor Packaging technology, Computer-Aided Design technology and Heart Valve technology.

As of December 31, 2011, certain of our operating subsidiaries had several option agreements with third-party patent portfolio owners regarding the potential acquisition of additional patent portfolios. Future patent portfolio acquisitions will continue to expand and diversify our future revenue generating opportunities.

#### Subsequent Events - Patent Acquisitions

In January 2012, our subsidiary acquired ADAPTIX, Inc., a pioneer in the development of 4G technologies for wireless systems, for \$160 million in cash. ADAPTIX, Inc., is a technology company recognized in the industry as one of the first developers of cutting edge 4G wireless systems, and owns a growing portfolio of 230 issued and pending patents in 13 countries. ADAPTIX's patented technologies extend across a broad range of 4G technologies including OFDMA and MIMO.

#### Acacia Intellectual Property Fund, L.P.

In August 2010, one of our wholly owned subsidiaries became the general partner of the Acacia Intellectual Property Fund, L.P., or the Acacia IP Fund, which was formed in August 2010. The Acacia IP Fund is authorized to raise up to \$250 million. The Acacia IP Fund acquires, licenses and enforces intellectual property consisting primarily of patents, patent rights, and patented technologies.

#### Critical Accounting Policies

Our consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. In preparing these financial statements, we make assumptions, judgments and estimates that can have a significant impact on amounts reported in our 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.

We believe that, of the significant accounting policies discussed in Note 2 to our notes to consolidated financial statements, the following accounting policies require our most difficult, subjective or complex judgments:

- revenue recognition;
- stock-based compensation expense;

valuation of long-lived and intangible assets; and  
impairment of marketable securities;

We discuss below the critical accounting assumptions, judgments and estimates associated with these policies. Historically, our assumptions, judgments and estimates relative to our critical accounting policies have not differed materially from actual results. For further information on our critical accounting policies, refer to Note 2 to the notes to consolidated financial statements included herein.

#### Revenue Recognition

**Change in Accounting Policy for Term Agreements.** Certain revenue agreements provide for the payment of a minimum upfront fee at the inception of each contractual term in consideration for the respective intellectual property rights granted, hereinafter referred to as “term agreements.” Effective October 1, 2009, we elected to change our method of accounting for our term agreements to recognize revenue when delivery of the intellectual property rights and all other

arrangement deliverables has substantially occurred, which is typically at the time of execution of the related term agreement, or upon receipt of the applicable minimum upfront renewal payment, and when all other revenue recognition criteria, as described below, have been met. Prior to the change in method of accounting, fees for term agreements were deferred and amortized to revenue on a straight-line basis over the applicable contractual term. We adopted the new method because it provides a consistent approach to accounting for all of our revenue arrangements with similar significant terms and conditions and more closely reflects the culmination of the earnings process associated with these revenue arrangements.

We accounted for the change in accounting policy through a retrospective application of the new accounting policy as of January 1, 2009. The effect of applying the new accounting policy to term agreements in periods prior to January 1, 2009 was not material. Accordingly, our consolidated financial statements for years ending prior to January 1, 2009 have not been retroactively adjusted for this change in accounting policy.

As described below, significant management judgments must be made and used in connection with the revenue recognized in any accounting period. Material differences may result in the amount and timing of revenue recognized or deferred for any period, if management made different judgments.

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

We make estimates and judgments when determining whether the collectibility of fees receivable from licensees is reasonably assured. We assess the collectibility of fees receivable based on a number of factors, including past transaction history and the credit-worthiness of licensees. If it is determined that collection is not reasonably assured, the fee is recognized when collectibility becomes reasonably assured, assuming all other revenue recognition criteria have been met, which is generally upon receipt of cash for transactions where collectibility may have been an issue. Management's estimates regarding collectibility impact the actual revenues recognized each period and the timing of the recognition of revenues. Our assumptions and judgments regarding future collectibility could differ from actual events and thus materially impact our financial position and results of operations.

In general, our 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 our 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 our 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, our 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 our 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.

Depending on the complexity of the underlying revenue arrangement and related terms and conditions, significant judgments, assumptions and estimates may be required to determine when substantial delivery of contract elements has occurred, whether any significant ongoing obligations exist subsequent to contract execution, whether amounts due are collectible and the appropriate period or periods in which, or during which, the completion of the earnings process occurs. Depending on the magnitude of specific revenue arrangements, if different judgments, assumptions and estimates are made regarding contracts executed in any specific period, our periodic financial results may be materially affected.

Our operating subsidiaries are responsible for the licensing and enforcement of their respective patented technologies and pursue third parties that are utilizing their intellectual property without a license or who have under-reported the amount of royalties owed under a license agreement. As a result of these activities, from time to time, our operating subsidiaries may recognize revenues in a current period that relate to infringements by licensees that occurred in prior periods. These recoveries may cause revenues to be higher than expected during a particular reporting period and may not occur in subsequent periods. Differences between amounts initially recognized and amounts subsequently audited or reported as an adjustment to those amounts, are recognized in the period such adjustment is determined as a change in accounting estimate.



The economic terms of the inventor agreements, operating agreements and contingent legal fee arrangements associated with the patent portfolios owned or controlled by our operating subsidiaries, if any, including royalty rates, contingent fee rates and other terms, vary across the patent portfolios owned or controlled by our operating subsidiaries. Inventor royalties, noncontrolling interests and contingent legal fees expenses fluctuate period to period, based on the amount of revenues recognized each period, the terms and conditions of revenue agreements executed each period and the mix of specific patent portfolios with varying economic terms and obligations generating revenues each period. Inventor royalties, noncontrolling interests and contingent legal fees expenses will continue to fluctuate and may continue to vary significantly period to period, based primarily on these factors.

During the years ended December 31, 2011 and 2010, we entered into significant agreements with unrelated third parties resolving pending patent matters that resulted in the grant of certain intellectual property rights and recognition of revenues, portions of which were not subject to inventor royalty and contingent legal fee arrangements, as well as the grant of licenses from certain of our operating subsidiaries and recognition of revenues that were subject to inventor royalties and contingent legal fee arrangements. Revenues recognized subject to inventor royalties and contingent legal fees are based on a determination by the respective operating subsidiaries. Depending on the magnitude of specific revenue arrangements, if different judgments are made regarding revenues subject to inventor royalties and contingent legal fees in any specific period, our periodic financial results may be materially affected.

#### Stock-based Compensation Expense

Stock-based compensation payments to employees and non-employee directors are recognized as expense in the statements of operations. The compensation cost for all stock-based awards is measured at the grant date, based on the fair value of the award (determined using a Black-Scholes option pricing model for stock options and intrinsic value on the date of grant for nonvested restricted stock), and is recognized as an expense over the employee's requisite service period (generally the vesting period of the equity award). Determining the fair value of stock-based awards at the grant date requires significant estimates and judgments, including estimating the market price volatility of our common stock, future employee stock option exercise behavior and requisite service periods.

Stock-based compensation expense is recorded only for those awards expected to vest using an estimated pre-vesting forfeiture rate. As such, we are required to estimate pre-vesting option forfeitures at the time of grant and reflect the impact of estimated pre-vesting option forfeitures on compensation expense recognized. Estimates of pre-vesting forfeitures must be periodically revised in subsequent periods if actual forfeitures differ from those estimates. We consider several factors in connection with our estimate of pre-vesting forfeitures, including types of awards, employee class, and historical pre-vesting forfeiture data. The estimation of stock awards that will ultimately vest requires judgment, and to the extent that actual results differ from our estimates, such amounts will be recorded as cumulative adjustments in the period the estimates are revised. If actual results differ significantly from these estimates, stock-based compensation expense and our results of operations could be materially impacted. Refer to Notes 2 and 11 to our notes to consolidated financial statements included elsewhere herein.

#### Valuation of Long-lived and Intangible Assets

We review long-lived assets, including patent-related intangibles, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Factors we consider important, which could trigger an impairment review, include the following:

- significant underperformance relative to expected historical or projected future operating results;

- significant changes in the manner of our use of the acquired assets or the strategy for our overall business;
- significant negative industry or economic trends;
- significant adverse changes in legal factors or in the business climate, including adverse regulatory actions or assessments; and
- significant decline in our stock price for a sustained period.

If a potential impairment exists, a calculation is performed to determine the fair value of the long-lived asset. This calculation is based on a valuation model, which considers the estimated future undiscounted cash flows resulting from the use of the asset, and a discount rate commensurate with the risks involved. Third party appraised values may also be used in

determining whether impairment potentially exists. The estimated fair value is compared to the long-lived asset's carrying value to determine whether impairment exists.

As described above, in assessing the recoverability of intangible assets, significant judgment is required in connection with estimates of market values, estimates of the amount and timing of future cash flows, and estimates of other factors that are used to determine the fair value of the respective assets. If these estimates or related projections change in future periods, future intangible asset impairment tests may result in charges to earnings.

#### Impairment of Marketable Securities

U.S. generally accepted accounting principles define 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.

We use observable market inputs (quoted market prices) when measuring fair value and are required to use a Level 1 quoted price to measure fair value, whenever possible.

At December 31, 2011 and 2010, our investments were comprised of money market funds (included in cash and cash equivalents in the accompanying consolidated balance sheets), strategic investments in marketable equity securities (included in short term investments in the accompanying consolidated balance sheet as of December 31, 2011), and certain auction rate securities (included in noncurrent investments in the accompanying consolidated balance sheets). Investments in marketable equity securities are classified as available-for-sale and are reported at fair value, and included in Level 1 of the valuation hierarchy described above. Investments in auction rate securities are classified as available-for-sale, and are reported at fair value, and included in Level 3 of the valuation hierarchy described above. The fair values of auction rate securities included in Level 3 of the hierarchy of valuation techniques are estimated utilizing an analysis of certain unobservable inputs and by reference to a discounted cash flow analysis. These analyses consider, among other items, the underlying structure of each security, the collateral underlying the security investments, the creditworthiness of the counterparty, the present value of future principal and contractual interest payments discounted at rates considered to be reflective of current market conditions, consideration of the probabilities of default, continued auction failure, or repurchase or redemption at par for each period, and estimates of the time period over which liquidity related issues will be resolved. Observable market data for instruments with similar characteristics to our auction rate securities is also considered when possible.

Significant judgment is required in connection with the assumptions and inputs included in the discounted cash flow analysis and estimates of other factors that are used to determine the fair value of our auction rate securities. If these estimates and assumptions change in future periods, future estimates of the fair value of our auction rate securities may result in additional charges to earnings.

We review impairments associated with our investments to determine the classification of any impairment as “temporary” or “other-than-temporary.” For investments classified as available-for-sale, unrealized losses that are other than temporary are recognized in the consolidated statements of operations. An impairment is deemed other than temporary unless (a) we have the ability and intent to hold an investment for a period of time sufficient for recovery of its carrying amount and (b) positive evidence indicating that the investment's carrying amount is recoverable within a reasonable period of time outweighs any evidence to the contrary. All available evidence, both positive and negative, is considered to determine whether, based on the weight of that evidence, the carrying amount of the investment is recoverable within a reasonable period of time. Refer to Note 7 to our notes to consolidated financial statements included elsewhere herein for information regarding other-than-temporary charges and related recoveries recorded in the consolidated statements of operations for the periods presented.

## Consolidated Results of Operations

## Comparison of the Results of Operations for Fiscal Years 2011, 2010 and 2009

## Revenues and Other Operating Income (In thousands)

|                            | 2011       | 2010       | 2009      |
|----------------------------|------------|------------|-----------|
| Revenues                   | \$ 172,256 | \$ 131,829 | \$ 67,340 |
| Verdict insurance proceeds | 12,451     | —          | —         |
|                            | \$ 184,707 | \$ 131,829 | \$ 67,340 |

Revenues. 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 our 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 our operating subsidiaries, (ii) covenants-not-to-sue, (iii) the release of the licensee from certain claims, and (iv) the dismissal of any pending litigation.

Other Operating Income - Verdict Insurance Proceeds. Creative Internet Advertising Corporation, or CIAC, an operating subsidiary of our company, received a \$12.5 million damages award stemming from its May 2009 patent infringement lawsuit with Yahoo! Inc. Yahoo! Inc. appealed the verdict, and in April 2011, a three Judge panel of the United States Court of Appeals for the Federal Circuit reversed the District Court's judgment of infringement in a 2 to 1 decision.

In 2009, CIAC purchased a specific contingency insurance policy under which the insurer agreed to indemnify CIAC for covered losses incurred as a result of a final adjudication entered in the underlying litigation, which resulted in a revised final judgment amount that was less than the \$12.5 million final judgment covered under the policy (herein referred to as "verdict insurance"). As a result of the reversal of the District Court's judgment, in September 2011, CIAC submitted a claim under the insurance policy and received \$12.5 million in verdict insurance proceeds.

|  | 2011 | 2010 | 2009 |
|--|------|------|------|
| New agreements executed                                  | 125  | 221  | 117  |
| Licensing and enforcement programs with initial revenues | 21   | 31   | 12   |

Three licensees individually accounted for 26%, 17% and 15%, respectively, of revenues recognized in fiscal year 2011, two licensees individually accounted for 35% and 19%, respectively, of revenues recognized in fiscal year 2010, and two licensees individually accounted for 15% and 12%, respectively, of revenues recognized in fiscal year 2009.

On a consolidated basis, as of December 31, 2011, 112 of our licensing programs had begun generating licensing revenues, up from 91 as of December 31, 2010 and 60 as of December 31, 2009.

Revenues recognized by our operating subsidiaries fluctuate from period to period primarily based on the following factors:

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;

fluctuations in the sales results or other royalty per unit activities of our licensees that impact the calculation of fees due;

the timing of the receipt of periodic payments and/or reports from licensees; and

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fluctuations in the net number of active licensees from period to period.

In fiscal year 2011 and 2010, we entered into a number of separate significant revenue agreements with unrelated third parties resolving pending patent matters.

The 40% increase in revenues and other operating income in fiscal year 2011, as compared to fiscal year 2010, was due primarily to an increase in the average revenue per executed agreement, which was partially offset by a decrease in the total number of agreements executed.

The 96% increase in revenues in fiscal year 2010, as compared to fiscal year 2009, was due primarily to an increase in the average revenue per executed agreement and an increase in the total number of new licensing agreements executed during the period.

Cost of Revenues and Net Income Attributable to Noncontrolling Interests (In thousands)

|  | 2011     | 2010     | 2009     |
|--|----------|----------|----------|
| Cost of revenues and other operating income:         |          |          |          |
| Inventor royalties**                                 | \$46,614 | \$25,292 | \$15,673 |
| Contingent legal fees**                              | 44,247   | 19,906   | 15,945   |
| Other verdict insurance related costs                | 808      | —        | —        |
| Net income attributable to noncontrolling interests* | —        | (3,191 ) | (5,657 ) |

\* Refer to Note 2 to the notes to consolidated financial statements included in this report for additional information.

\*\*Includes inventor royalties and contingent legal fees associated with the verdict insurance policy and related proceeds received, as described below.

**Inventor Royalties, Net Income Attributable to Noncontrolling Interests and Contingent Legal Fees Expense.** Net income or loss attributable to noncontrolling interests represents the portion of net income or loss from the licensing and enforcement activities of our majority-owned operating subsidiaries that are distributable to the operating subsidiary's noncontrolling interest holders pursuant to the underlying operating agreements. The economic terms of the inventor agreements, operating agreements and contingent legal fee arrangements associated with the patent portfolios owned or controlled by our operating subsidiaries, if any, including royalty rates, contingent fee rates and other terms, vary across the patent portfolios owned or controlled by our operating subsidiaries. As such, these costs 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.

**Verdict Insurance Proceeds Related Costs.** Verdict insurance proceeds related costs include \$2.9 million of inventor royalties, \$4.0 million of contingent legal fees and \$808,000 in other costs associated with the verdict insurance policy and related proceeds received, as described above.

|  | 2011 vs. 2010 |                | 2010 vs. 2009 |                |
|--|---------------|----------------|---------------|----------------|
| Increase in revenues and other operating income                            | 40            | %              | 96            | %              |
| Increase in inventor royalties and noncontrolling interests <sup>(c)</sup> | 64            | % Note (a)     | 34            | % Note (a)     |
| Increase in contingent legal fees expense <sup>(c)</sup>                   | 122           | % Note (b)     | 25            | % Note (b)     |
|  | 88            | % Note (a),(b) | 30            | % Note (a),(b) |

Increase in inventor royalties expense, noncontrolling interests  
and contingent legal fees expense<sup>(c)</sup>

| As a Percentage of Revenue and Other Operating Income:                                   | 2011 | 2010 | 2009 |                |
|--|------|------|------|----------------|
| Inventor royalties and noncontrolling interests <sup>(c)</sup>                           | 25   | % 22 | % 32 | % Note (a)     |
| Contingent legal fees expense <sup>(c)</sup>   | 24   | % 15 | % 24 | % Note (b)     |
| Inventor royalties, noncontrolling interests and contingent<br>legal fees <sup>(c)</sup> | 49   | % 37 | % 55 | % Note (a),(b) |

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The percentage increase in inventor royalties and noncontrolling interests in fiscal year 2011, as compared to fiscal year 2010, was greater than the increase in revenues for the same periods, primarily due to a higher percentage of (a) revenues recognized in fiscal year 2010 having no corresponding inventor royalty arrangement obligations, and in the aggregate, lower inventor royalty rates associated with the portfolios generating revenues in fiscal year 2010, as compared to fiscal year 2011.

The percentage increase in inventor royalties and noncontrolling interests in fiscal year 2010, as compared to fiscal year 2009, was less than the increase in revenues for the same periods, primarily due to a portion of revenues recognized in fiscal year 2010 having no corresponding inventor royalty arrangement obligations, and in the aggregate, lower inventor royalty rates associated with the portfolios generating revenues in fiscal year 2010, as compared to fiscal year 2009.

The percentage increase in contingent legal fees expense in fiscal year 2011, as compared fiscal year 2010, was greater than the increase in revenues for the same periods, primarily due to a higher percentage of revenues (b) recognized in fiscal year 2010 having no corresponding contingent legal fee arrangement obligations, and in the aggregate, lower contingent legal fee rates associated with the portfolios generating revenues in fiscal year 2010, as compared to fiscal year 2011.

The percentage increase in contingent legal fees expense in fiscal year 2010, as compared fiscal year 2009, was less than the increase in revenues for the same periods, primarily due to a portion of revenues recognized in fiscal year 2010 having no corresponding contingent legal fee arrangement obligations, and in the aggregate, lower contingent legal fee rates associated with the portfolios generating revenues in fiscal year 2010, as compared to fiscal year 2009.

(c) Includes inventor royalties and contingent legal fees associated with the verdict insurance proceeds received, as described above.

Certain revenue agreements with unrelated third parties entered into in fiscal year 2011 and 2010 resulted in the grant of certain intellectual property rights and recognition of revenues, the majority of which were not subject to inventor royalty and contingent legal fee arrangements, as well as the grant of licenses from certain of our operating subsidiaries and recognition of revenues that were subject to inventor royalties and contingent legal fee arrangements. Revenues recognized subject to inventor royalties and contingent legal fees are based on a determination by the respective operating subsidiaries.

|   | 2011      | 2010      | 2009      |
|---|-----------|-----------|-----------|
| Litigation and licensing expenses - patents | \$ 13,005 | \$ 13,891 | \$ 14,055 |
| Amortization of patents                     | 9,745     | 6,931     | 4,634     |

Litigation and Licensing Expenses - Patents. Litigation and licensing expenses-patents include patent-related prosecution and enforcement costs incurred by outside patent attorneys engaged on an hourly basis and the out-of-pocket expenses incurred by law firms engaged on a contingent fee basis. Litigation and licensing expenses-patents also include licensing and enforcement related third-party patent research, development, consulting, and other costs incurred in connection with the licensing and enforcement of patent portfolios. Litigation and licensing expenses-patents fluctuate from period to period based on patent enforcement and prosecution activity associated with ongoing licensing and enforcement programs and the timing of the commencement of new licensing and enforcement programs in each period.

Litigation and licensing expenses-patents decreased in the periods presented reflecting lower net levels of related patent enforcement and prosecution activity associated with our continued investment in ongoing licensing and enforcement programs and new licensing and enforcement programs commenced since the end of the applicable prior year period.

We expect patent-related legal expenses to continue to fluctuate period to period based on the factors summarized above, in connection with upcoming scheduled trial dates and our current and future patent acquisition, development, licensing and enforcement activities.

**Amortization of Patents.** Amortization expense increased 41% in fiscal year 2011, as compared to fiscal year 2010, primarily due to a net increase in accelerated patent amortization related to recoupable up-front patent portfolio acquisition costs recovered from net licensing proceeds totaling \$1.9 million, a net increase in accelerated amortization related to patent portfolios to which our operating subsidiary elected to terminate its rights and other patent portfolio sales to unrelated parties

totaling \$547,000, a net increase in scheduled amortization on patent portfolios owned or controlled as of the end of the prior period totaling \$207,000, and an increase in amortization on new patent portfolios acquired since the end of the prior year period totaling \$118,000.

Amortization expense increased 50% in fiscal year 2010, as compared to fiscal year 2009, due primarily to a net increase in accelerated patent amortization related to recoupable up-front patent portfolio acquisition costs recovered from net licensing proceeds totaling \$1.1 million, a net increase in accelerated amortization related to patent portfolios to which our operating subsidiary elected to terminate its rights and other patent portfolio sales to unrelated parties totaling \$275,000, and a net increase in scheduled amortization on patent portfolios owned or controlled as of the end of the prior year period totaling \$894,000.

#### Operating Costs and Expenses (In thousands)

|  | 2011     | 2010     | 2009     |
|--|----------|----------|----------|
| Marketing, general and administrative expenses (including non-cash stock compensation expense of \$13,579 for 2011, \$7,121 for 2010 and \$7,065 for 2009) | \$35,693 | \$25,067 | \$21,070 |
| Research, consulting and other expenses - business development   | 4,338    | 2,121    | 1,689    |

Marketing, General and Administrative Expenses. Marketing, general and administrative expenses include employee compensation and related personnel costs, including non-cash stock compensation expenses, office and facilities costs, legal and accounting professional fees, public relations, marketing, stock administration, gross receipts based state taxes and other corporate costs. A summary of the main drivers of the change in marketing, general and administrative expenses, including the impact of non-cash stock compensation charges, for the periods presented, is as follows (in thousands):

|  | 2011 vs. 2010 | 2010 vs. 2009 |
|--|---------------|---------------|
| Addition of licensing, business development and engineering personnel and other personnel costs, net | \$2,172       | \$1,021       |
| Increase in variable performance-based compensation and other variable personnel costs               | 1,303         | 2,153         |
| Corporate, general and administrative costs  | 796           | 622           |
| State and foreign gross receipts taxes   | (103)         | ) 145         |
| Non-cash stock compensation expense  | 6,458         | 56            |

Research, Consulting and Other Expenses - Business Development. Research, consulting and other expenses include third-party business development related research, development, consulting, and other costs incurred in connection with business development activities. These costs fluctuate period to period based on business development related activities in each period.

#### Provision for Income Taxes (in thousands)

|                            | 2011    | 2010    | 2009    |
|----------------------------|---------|---------|---------|
| Provision for income taxes | \$8,708 | \$1,740 | \$209   |
| Effective tax rate         | 29      | % 4     | % (4 )% |

Provision for Income Taxes. The increase in our effective tax rate in fiscal year 2011, as compared to 2010, primarily reflects the impact of foreign withholding taxes totaling \$7.6 million, which were withheld by the applicable foreign tax authority pursuant to the requirements of the applicable income tax convention, on payments in connection with certain licensing arrangements executed during fiscal year 2011. In general, foreign taxes withheld may be claimed as a deduction on future U.S. corporate income tax returns, or as a credit against future U.S. income tax liabilities, subject to certain limitations. We continue to record a full valuation allowance against our net deferred tax assets due to management's determination that the criteria for recognition have not been met. As a result, amounts related to foreign taxes withheld are reflected in tax expense for fiscal year 2011. The increase was partially offset by a decrease in noncash state tax expense calculated for financial reporting purposes without the excess tax benefit related to the exercise and vesting of equity-based incentive awards in fiscal year 2011.

The increase in our tax expense in fiscal year 2010, as compared to fiscal year 2009, reflects the impact of the suspension of the use of NOLs in California, as described below, and the calculation of noncash tax expense for financial reporting purposes without the excess tax benefit related to the exercise and vesting of equity-based incentive awards in fiscal year 2010.

Under U.S. generally accepted accounting principles, if a deduction reported on a tax return for an equity-based incentive award exceeds the cumulative compensation cost for those instruments recognized for financial reporting purposes, any resulting realized tax benefit that exceeds the previously calculated and recognized compensation expense for those instruments is considered an excess tax benefit, and is recognized as a credit to additional paid-in capital. The deductions related to the exercise and vesting of equity-based incentive awards during the periods presented are, in general, available to offset taxable income on Acacia's consolidated tax returns (subject to suspension of use for certain tax years in California, as described below). Accordingly, the realized excess tax benefit related to the exercise and vesting of equity-based incentive awards for the periods presented, was credited to additional paid-in capital, not taxes payable. Noncash tax expense related to the actual tax benefit realized for excess tax deductions resulting from the exercise and vesting of equity-based incentive awards totaled \$583,000 and \$1,302,000 for the years ended December 31, 2011 and 2010, respectively.

In October 2010, the State of California passed a state budget including provisions furthering the suspension of the use of NOLs, for the 2010 and 2011 tax years. As a result, California State NOLs are not available to offset California taxable income for the 2010 or 2011 tax years.

#### Inflation

Inflation has not had a significant impact on us or any of our subsidiaries in the current or prior periods.

#### Liquidity and Capital Resources

##### General

Our primary sources of liquidity are cash, cash equivalents and investments on hand generated from our operating activities and proceeds from recent equity financings. In March 2011, we completed a public offering of 5,750,000 shares of common stock. The public offering price was \$31.50 per share, and the net proceeds to the Company totaled approximately \$175.2 million after deducting underwriting discounts and related offering expenses. We retained broad discretion over the use of the net proceeds from the offering and intend to use the net proceeds for operations and for other general corporate purposes, including, but not limited to, working capital, strategic acquisitions and other transactions.

Our management believes that our cash and cash equivalents, investments, anticipated cash flow from operations, proceeds from our 2012 non-registered direct private placement described below and other external sources of available credit, will be sufficient to meet our cash requirements through at least March 2013 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 Item 1A, "Risk Factors", above. 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, if 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 2012. 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 there can be no assurance that the commercial paper markets will be a reliable source of short-term financing for us. If we fail to obtain additional funding when needed, we may not be able to execute our business plans and our business, conducted by our operating subsidiaries, may suffer.

As described above, in August 2010, one of our wholly owned subsidiaries became the general partner of the Acacia IP Fund, which was formed in August 2010. The Acacia IP Fund is authorized to raise up to \$250 million. The Acacia IP Fund acquires, licenses and enforces intellectual property consisting primarily of patents, patent rights, and patented technologies.

In February 2012, we raised gross proceeds of \$225.0 million through the sale of 6.12 million shares of our common stock at a price of \$36.75 per share in a private placement offering with certain institutional accredited investors. The proceeds to us from the private placement, net of placement agent fees and estimated offering expenses, totaled \$219.1 million. We intend to use the net proceeds of this private placement to finance pending and future acquisitions of patents and patent royalties and other patent licensing vehicles and companies with patent assets, and for working capital and general corporate purposes.

## Cash, Cash Equivalents and Investments

Our consolidated cash, cash equivalents and investments on hand totaled \$323.3 million at December 31, 2011, compared to \$104.5 million at December 31, 2010. The net change in cash, cash equivalents and investments on hand related to operations for 2011, 2010 and 2009 was comprised of the following (in thousands):

|                                 | 2011      | 2010     | 2009     |
|---------------------------------|-----------|----------|----------|
| Net cash provided by (used in): |           |          |          |
| Operating activities            | \$60,590  | \$44,922 | \$16,118 |
| Investing activities            | (23,237 ) | (8,098 ) | (8,652 ) |
| Financing activities            | 174,865   | 13,956   | (4,010 ) |

**Cash Flows from Operating Activities.** Cash receipts from licensees totaled \$189.9 million, \$127.4 million and \$70.9 million in fiscal years 2011, 2010 and 2009, respectively. The fluctuations in cash receipts for the periods presented primarily reflects the corresponding fluctuations in revenues recognized during the same periods, as described above. Cash outflows from operations totaled \$129.3 million, \$82.5 million and \$54.8 million in fiscal years 2011, 2010 and 2009, respectively. The fluctuations in cash outflows for the periods presented reflect the net increase in revenue related inventor royalties and contingent legal fees and other operating costs and expenses during the same periods, as discussed above, and the impact of the timing of payments to inventors, attorneys and other vendors.

**Cash Flows from Investing Activities.** The change in net cash flows used in investing activities in fiscal year 2011, as compared to fiscal year 2010, was primarily due to patent portfolio acquisitions totaling \$14.7 million and net purchases of available-for-sale investments totaling \$8.4 million. Patent acquisition costs totaled \$8.2 million and \$9.6 million in fiscal years 2010 and 2009, respectively. Net sales of short-term investments totaled \$60,000, \$184,000 and \$1.0 million in fiscal years 2011, 2010 and 2009, respectively.

**Cash Flows from Financing Activities.** Net cash provided by financing activities in fiscal year 2011 included net proceeds from the sale of common stock totaling \$175.2 million. Fiscal year 2011 and 2010 cash inflows from financing activities included \$1.5 million and \$2.4 million, respectively, of capital contributions to the Acacia IP Fund and \$583,000 and \$1.3 million, respectively, in excess tax benefits related to stock-based compensation. Cash inflows from financing activities in fiscal years 2011, 2010 and 2009 included stock option exercise proceeds of \$411,000, \$15.1 million, and \$247,000, respectively. Distributions to noncontrolling interests totaled \$2.9 million, \$4.8 million and \$3.2 million in fiscal year 2011, 2010 and 2009, respectively.

In April 2009, our board of directors approved a discretionary restricted stock vesting net issuance program. Under the program, upon the vesting of unvested shares of restricted common stock, we withheld from fully vested shares of common stock otherwise deliverable to any employee-participant in our equity compensation programs, a number of whole shares of common stock having a fair market value (as determined by us as of the date of vesting) equal to the amount of tax required to be withheld by law, in order to satisfy the tax withholding obligations of ours in connection with the vesting of such shares. Of a total of 580,600 shares of restricted stock vesting between June 2009 and September 2009, 174,628 shares of common stock were withheld by us, in satisfaction of \$1.1 million in required withholding tax liability.

## Working Capital

The primary components of working capital are cash and cash equivalents, accounts receivable, prepaid expenses, accounts payable, accrued expenses, and royalties and contingent legal fees payable. Working capital at December 31, 2011 was \$294.9 million, compared to \$92.3 million at December 31, 2010.

Consolidated accounts receivable from licensees decreased to \$2.9 million at December 31, 2011, compared to \$8.0 million at December 31, 2010. Accounts receivable balances fluctuate based on the timing, magnitude and payment terms associated with revenue agreements executed during the period, and the timing of cash receipts on accounts receivable balances recorded in previous periods. Five licensees individually represented approximately 18%, 15%, 14%, 13% and 10% of accounts receivable at December 31, 2011. One licensee individually represented approximately 74% of accounts receivable at December 31, 2010.

Consolidated royalties and contingent legal fees payable increased to \$23.5 million at December 31, 2011, compared to \$12.8 million at December 31, 2010. Royalties and contingent legal fees payable balances fluctuate based on the magnitude



and timing of the execution of related license agreements, the timing of cash receipts for the related license agreements, and the timing of payment of current and prior period royalties and contingent legal fees payable to inventor and outside attorneys, respectively.

The majority of accounts receivable from licensees at December 31, 2011 were collected or scheduled to be collected in the first quarter of 2012, in accordance with the terms of the related underlying license agreements. The majority of royalties and contingent legal fees payable are scheduled to be paid in the first quarter of 2012 in accordance with the underlying contractual arrangements.

Accounts payable and accrued expenses decreased to \$6.6 million at December 31, 2011, from \$7.1 million at December 31, 2010, due primarily to the decrease in litigation and licensing expenses-patents described above and the related timing of payments to vendors in the ordinary course.

#### Off-Balance Sheet Arrangements

We have not entered into off-balance sheet financing arrangements, other than operating leases.

#### Contractual Obligations

We have no significant commitments for capital expenditures in 2012. We have no committed lines of credit or other committed funding or long-term debt. The following table lists our material known future cash commitments as of December 31, 2011, and any material known commitments arising from events subsequent to year end:

|   | Payments Due by Period (In thousands) |                     |           |                      |
|---|---------------------------------------|---------------------|-----------|----------------------|
|   | Total                                 | Less than<br>1 year | 1-3 years | More than 3<br>years |
| Operating leases                              | \$3,210                               | \$675               | \$1,451   | \$1,084              |
| Scheduled patent acquisition related payments | 1,400                                 | 900                 | 250       | 250                  |
| Payments to consultants                       | 200                                   | 200                 | —         | —                    |
| Total contractual obligations                 | \$4,810                               | \$1,775             | \$1,701   | \$1,334              |

Uncertain Tax Positions. As of December 31, 2011, the liability for uncertain tax positions, associated primarily with state income taxes, totaled \$85,000, none of which is expected to be paid within one year. The liability for uncertain tax positions is recorded in other long-term liabilities in the consolidated balance sheets.

#### Recent Accounting Pronouncements

Refer to Note 2 to our notes to consolidated financial statements included elsewhere herein.

#### ITEM 7A. 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. In addition, we sometimes invest in marketable equity securities for strategic purposes related to our patent based businesses. 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 interests 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. However, to the extent that our marketable equity securities have strategic value, we typically do not attempt to reduce or eliminate market risk with respect to such securities through hedging activities.

At December 31, 2011 and 2010, our 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, fully collateralized repurchase agreements (included in cash and cash equivalents in the accompanying consolidated balance sheets), strategic investments in marketable equity securities (included in short term investments in the accompanying consolidated balance sheet as of December 31, 2011), and certain auction rate securities (included in noncurrent investments in the accompanying consolidated balance sheets).

In general, money market funds are not subject to market risk because the interest paid on such funds fluctuates with the prevailing interest rate. Accordingly, a 100 basis point increase in interests 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. Similarly, 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 direct material impact on the value of our auction rate securities, although auction rate securities may generally be subject to greater market risk than money market funds. Marketable equity securities are subject to increased market risk sensitivity, but are not directly impacted by interest rate risk. To determine reasonably possible decreases in the value of our marketable equity investments, we analyzed the expected market price sensitivity of our marketable equity investment portfolio. Assuming a loss of 10% in the value of the United States equity markets, the aggregate value of our marketable equity investments could decrease by approximately 14%.

#### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and related financial information required to be filed hereunder are indexed under Item 15 of this report and are incorporated herein by reference.

#### ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act, as of the end of the period covered by this report, December 31, 2011, which we refer to as the Evaluation Date.

As a result of a material weakness in our internal control over financial reporting relating to the accounting for intra-period tax expense, our management has reassessed the effectiveness of our disclosure controls and procedures and has determined that our disclosure controls and procedures were not effective as of the Evaluation Date.

Restatement of Consolidated Interim Financial Statements for the three and nine months ended September 30, 2011. On February 28, 2012, our management concluded that our unaudited condensed consolidated financial statements for the interim period ended September 30, 2011, included the use of certain net operating loss carry forwards related to the 2000 tax year reflected in our 2001 tax return (prepared by external advisors) relied on by us in connection with the preparation of the third quarter 2011 tax provision, that based on new information, were subsequently determined to be currently unsupported, and therefore, should not be relied upon. As a result, our Audit Committee authorized and directed management to restate our unaudited interim financial statements for the three and nine months ended September 30, 2011. The restated interim financial statements have been filed for the applicable periods. No financial statements prior to the financial statements for the quarterly period ended September 30, 2011 were affected by the issue described above. The effect on disclosures prior to the quarterly period ended September 30, 2011 was not material.

Notwithstanding the material weakness described above, management believes the consolidated financial statements presented in this Annual Report on Form 10-K fairly present, in all material respects, our financial position, results of operations and cash flows for all periods presented herein, in conformity with generally accepted accounting principles.

Remediation Plan. Since the date we identified this material weakness, we have taken steps to engage a third party tax consulting firm to assist us on a quarterly basis with the preparation and review of our interim and year-end tax provision calculations. While we had procedures and processes to apply accounting standards to complex intra period tax provision calculations, we did not have adequate resources to provide for a detailed analysis, documentation and review of the 2000 and 2001 historical tax returns, giving rise to the currently unsupported tax attributes. This material weakness prevented us from properly reporting the noncash tax expense financial information for the third quarter of 2011, and we have filed restated financial statements for the applicable periods. The resulting offsetting adjustment was credited to additional paid-in capital, not taxes payable, and accordingly, does not reflect cash taxes payable. We are in the process of enhancing our processes through the engagement of a tax consulting firm with the resources and ability to research, analyze and apply complex tax accounting standards. Management will continue to review and make necessary changes to the overall design of our internal control environment, as well as to implement policies and procedures to improve the overall effectiveness of internal control over financial reporting.

Changes in Internal Controls. Except as described above, there have been no changes in our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

(b) Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of our financial reporting for external purposes in accordance with accounting principles generally accepted in the United States of America. Internal control over financial reporting includes maintaining records that in reasonable detail accurately and fairly reflect our transactions; providing reasonable assurance that transactions are recorded as necessary for preparation of our financial statements in accordance with generally accepted accounting principles; providing reasonable assurance that receipts and expenditures are made only in accordance with authorizations of our management and directors; and providing reasonable assurance that unauthorized acquisition, use or disposition of company assets that could have a material effect on our financial statements would be prevented or detected on a timely basis. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of our financial statements would be prevented or detected.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) as set forth in Internal Control-Integrated Framework. Based on our evaluation under the framework in Internal Control-Integrated Framework, our management concluded that our internal controls over financial reporting

were ineffective as of December 31, 2011, based on a material weakness identified by management as a result of the inclusion of certain net operating loss carry forwards related to the 2000 tax year reflected in our 2001 tax return (prepared by external advisors) relied on by us in connection with the preparation of the third quarter 2011 tax provision, that based new information, were subsequently determined to be currently unsupported. The material weakness led to a misstatement of noncash tax expense included in the tax provision for the three and nine months ended September 30, 2011. The resulting offsetting adjustment was credited to additional paid-in capital, not taxes payable, and accordingly, does not reflect cash taxes payable. No financial statements prior to the financial statements for the quarterly period ended September 30, 2011 were affected by the issue described above. The effect on disclosures prior to the quarterly period ended September 30, 2011 was not material. We are in the process of enhancing our processes and procedures through the engagement of an external tax consulting firm to assist us on a quarterly

basis with the preparation and review of interim and year-end tax provision calculations with the ability and resources to research, analyze and apply complex tax accounting standards. We will continue to review the updated control structure to ensure management's plan is effective in remediating the material weakness identified.

Grant Thornton LLP, our independent registered public accountants, has audited the effectiveness of our internal control over financial reporting as of December 31, 2011, based on the COSO criteria; their report is included in Item 15.

#### ITEM 9B. OTHER INFORMATION

None

### PART III

#### ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Except as provided below, in accordance with General Instruction G(3) to Form 10-K, certain information required by this Item is incorporated herein by reference to our definitive proxy statement to be filed with the SEC no later than April 30, 2012.

Code of Conduct.

We have adopted a Code of Conduct that applies to all employees, including our chief executive officer, chief financial and accounting officer, president and any persons performing similar functions. Our Code of Conduct is provided on our internet website at [www.acaciaresearch.com](http://www.acaciaresearch.com).

#### ITEM 11. EXECUTIVE COMPENSATION

In accordance with General Instruction G(3) to Form 10-K, the information required by this Item is incorporated herein by reference to our definitive proxy statement to be filed with the SEC no later than April 30, 2012.

#### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

In accordance with General Instruction G(3) to Form 10-K, certain information required by this Item is incorporated herein by reference to our definitive proxy statement to be filed with the SEC no later than April 30, 2012.

## Equity Compensation Plan Information

The following table provides information with respect to shares of our common stock issuable under our equity compensation plans as of December 31, 2011:

| Plan Category   | (a) Number of securities to be issued upon exercise of outstanding options | (b) Weighted-average exercise price of outstanding options | (c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) |
|---|--|--|---|
| Equity compensation plans approved by security holders                    |  |  |   |
| 2002 Acacia Technologies Stock Incentive Plan <sup>(1)</sup>              | 434,000  | \$5.55   | 598,000   |
| 2007 Acacia Technologies Stock Incentive Plan <sup>(2)</sup>              | —  | —  | —   |
| Subtotal  | 434,000  | \$5.55   | 598,000   |
| Equity compensation plans not approved by security holders <sup>(3)</sup> |  |  |   |
|   | N/A  | N/A  | N/A   |
| Total   | 434,000  | \$5.55   | 598,000   |

The share reserve under the 2002 Acacia Technologies Stock Incentive Plan automatically increases on the first trading day in January each calendar year by an amount equal to three percent (3%) of the total number of shares of our common stock outstanding on the last trading day of December in the prior calendar year, but in no event will (1) this annual increase exceed 500,000 shares and in no event will the total number of shares of common stock in the share reserve (as adjusted for all such annual increases) exceed twenty million shares. Column (a) excludes 1,333,000 in nonvested restricted stock awards and restricted stock units outstanding at December 31, 2011. Refer to Note 11 to our notes to consolidated financial statements included elsewhere herein.

The initial share reserve under the 2007 Acacia Technologies Stock Incentive Plan, or the 2007 Plan, was 560,000 shares of our common stock. The share reserve under the 2007 Plan automatically increased on January 1, 2008 and 2009, by an amount equal to two percent (2%) of the total number of shares of our common stock outstanding on the last trading day of December in the prior calendar year. After January 1, 2009, no new additional shares (2) will be added to the 2007 Plan without security holder approval (except for shares subject to outstanding awards that are forfeited or otherwise returned to the 2007 Plan). Column (a) excludes 270,000 in nonvested restricted stock awards outstanding at December 31, 2011. Refer to Note 11 to our notes to consolidated financial statements included elsewhere herein.

(3) We have not authorized the issuance of equity securities under any plan not approved by security holders.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

In accordance with General Instruction G(3) to Form 10-K, the information required by this Item is incorporated herein by reference to our definitive proxy statement to be filed with the SEC no later than April 30, 2012.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

In accordance with General Instruction G(3) to Form 10-K, the information required by this Item is incorporated herein by reference to our definitive proxy statement to be filed with the SEC no later than April 30, 2012.



## PART IV

## ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this report.

|  |             |
|--|-------------|
| (1) Financial Statements   | Page        |
| Acacia Research Corporation Consolidated Financial Statements        |             |
| <u>Reports of Independent Registered Public Accounting Firm</u>      | <u>F- 1</u> |
| <u>Consolidated Balance Sheets as of December 31, 2011 and 2010</u>  | <u>F- 3</u> |
| <u>Consolidated Statements of Operations for the Years Ended</u>     |             |
| <u>December 31, 2011, 2010 and 2009</u>                              | <u>F- 4</u> |
| <u>Consolidated Statements of Stockholders' Equity for the Years</u> |             |
| <u>Ended December 31, 2011, 2010 and 2009</u>                        | <u>F- 5</u> |
| <u>Consolidated Statements of Cash Flows for the Years Ended</u>     |             |
| <u>December 31, 2011, 2010 and 2009</u>                              | <u>F- 6</u> |
| <u>Notes to Consolidated Financial Statements</u>                    | <u>F- 7</u> |

## (2) Financial Statement Schedules

Financial statement schedules are omitted because they are not applicable or the required information is shown in the Financial Statements or the Notes thereto.

## (3) Exhibits

Refer to Item 15(b) below.

(b) Exhibits. The following exhibits are either filed herewith or incorporated herein by reference:

| Exhibit<br>Number | Description  |
|-------------------|--|
| 2.1               | Agreement and Plan of Merger, dated November 22, 2011, by and among Acacia Research Group LLC, Apollo Patent Corp., Adaptix, Inc., and Baker Communications Fund II (QP), L.P., solely in its capacity as representative for the shareholders of Adaptix, Inc.(16) |
| 3.1               | Amended and Restated Certificate of Incorporation (1)  |
| 3.2               | Amended and Restated Bylaws (10)   |
| 3.2.1             | Amendment to Amended and Restated Bylaws (11)  |
| 10.1*             | Acacia Research Corporation 1996 Stock Option Plan, as amended (2)   |
| 10.2*             | Form of Option Agreement constituting the Acacia Research Corporation 1996 Executive Stock Bonus Plan (3)  |
| 10.3*             | 2002 Acacia Technologies Stock Incentive Plan (4)  |
| 10.4*             | 2007 Acacia Technologies Stock Incentive Plan (5)  |
| 10.5*             | Form of Acacia Technologies Stock Option Agreement for the 2007 Acacia Technologies Stock Incentive Plan (6)   |
| 10.6*             | Form of Acacia Technologies Stock Issuance Agreement for the 2002 Acacia Technologies Stock Incentive Plan (6)   |
| 10.7*             |  |

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Form of Acacia Technologies Stock Issuance Agreement for the 2007 Acacia Technologies Stock Incentive Plan (6)

10.8 Office Space Lease dated January 28, 2002, between Acacia Research Corporation and The Irvine Company (7)

10.10 Form of Indemnification Agreement (8)

10.11 Form of Subscription Agreement between Acacia Research Corporation and certain investors (9)

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- 10.12 Third Amendment to Lease dated January 28, 2002 between Acacia Research Corporation and the Irvine Company (9)
- 10.19\* Employment Agreement, dated January 28, 2005, by and between Acacia Technologies Services Corporation, and Dooyong Lee, as amended (10)
- 10.19.1\* Amendment to Employment Agreement, dated December 17, 2008, by and between Acacia Technologies, LLC and Dooyong Lee (14)
- 10.20\* Employment Agreement, dated April 12, 2004, by and between Acacia Media Technologies Corporation and Edward Treska (10)
- 10.20.1\* Addendum, dated March 31, 2008, to Employment Agreement by and between Acacia Media Technologies Corporation and Edward Treska (12)
- 10.21 Fourth Amendment to Lease dated January 28, 2002 between Acacia Research Corporation and the Irvine Company (10)
- 10.22 Fifth Amendment to Lease dated January 28, 2002 between Acacia Research Corporation and the Irvine Company (10)
- 10.23\* Employment Agreement, dated March 31, 2008, by and between Acacia Technologies, LLC and Paul Ryan (13)
- 10.23.1\* Amendment to Employment Agreement, dated December 17, 2008, by and between Acacia Technologies, LLC and Paul Ryan (13)
- 10.24\* Employment Agreement, dated March 31, 2008, by and between Acacia Technologies, LLC and Robert L. Harris (12)
- 10.24.1\* Amendment to Employment Agreement, dated December 17, 2008, by and between Acacia Technologies, LLC and Robert L. Harris (13)
- 10.25\* Amended Employment Agreement, dated March 31, 2008, by and between Acacia Technologies, LLC and Clayton J. Haynes (12)
- 10.25.1\* Amendment to Amended Employment Agreement, dated December 17, 2008, by and between Acacia Technologies, LLC and Clayton J. Haynes (13)
- 10.26\* Acacia Research Corporation Amended and Restated Executive Severance Policy (13)
- 10.27 Sixth Amendment to Lease dated January 28, 2002 between Acacia Research Corporation and the Irvine Company (15)
- 10.28 Form of Purchase Agreement (17)
- 18.1 Preferability Letter dated February 25, 2010 from Grant Thornton LLP, independent registered public accounting firm, regarding change in accounting principle (14)
- 21.1 List of Subsidiaries
- 23.1 Consent of Independent Registered Public Accounting Firm
- 24.1 Power of Attorney (included in the signature page hereto).
- 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.

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\*The referenced exhibit is a management contract, compensatory plan or arrangement required to be filed as an exhibit to this Annual Report on Form 10-K pursuant to Item 15(c) of Form 10-K.

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In accordance with Rule 405(a)(2) of Regulation S-T, the registrant will file its first Interactive Data Files that \*\*comply with paragraphs (d)(1) through (d)(4), (e)(1) and (e)(2) of Rule 405 of Regulation S-T as exhibits to an amendment to this Annual Report on Form 10-K to be filed no later than 30 days after the date hereof.

(1) Incorporated by reference to Acacia Research Corporation's Current Report on Form 8-K filed on June 5, 2008 (SEC File No. 000-26068).

- (2) Incorporated by reference to Appendix A to Acacia Research Corporation's Definitive Proxy Statement on Schedule 14A filed on April 10, 2000 (SEC File No. 000-26068).
- (3) Incorporated by reference to Appendix A to Acacia Research Corporation's Definitive Proxy Statement on Schedule 14A filed on April 26, 1996 (SEC File No. 000-26068).  
Incorporated by reference to Annex E to the Proxy Statement/Prospectus which formed part of Acacia Research Corporation's Registration Statement on Form S-4 (SEC File No. 333-87654) which became effective on November 8, 2002.
- (5) Incorporated by reference to Acacia Research Corporation's Registration Statement on Form S-8 (SEC File No. 333-144754) which became effective on July 20, 2007.
- (6) Incorporated by reference to Acacia Research Corporation's Quarterly Report on Form 10-Q for the period ended September 30, 2007, filed on November 2, 2007 (SEC File No. 000-26068).
- (7) Incorporated by reference to Acacia Research Corporation's Annual Report on Form 10-K for the year ended December 31, 2001, filed on March 27, 2002 (SEC File No. 000-26068).
- (8) Incorporated by reference to Acacia Research Corporation's Current Report on Form 8-K filed on September 19, 2005 (SEC File No. 000-26068).
- (9) Incorporated by reference to Acacia Research Corporation's Quarterly Report on Form 10-Q for the period ended March 31, 2006, filed on May 10, 2006 (SEC File No. 000-26068).
- (10) Incorporated by reference to Acacia Research Corporation's Annual Report on Form 10-K for the year ended December 31, 2007, filed on March 14, 2008 (File No. 000-26068).
- (11) Incorporated by reference to Acacia Research Corporation's Current Report on Form 8-K filed on January 7, 2008 (File No. 000-26068).
- (12) Incorporated by reference to Acacia Research Corporation's Current Report on Form 8-K filed on April 2, 2008 (SEC File No. 000-26068).
- (13) Incorporated by reference to Acacia Research Corporation's Annual Report on Form 10-K for the year ended December 31, 2008, filed on February 26, 2009 (File No. 000-26068).
- (14) Incorporated by reference to Acacia Research Corporation's Annual Report on Form 10-K for the year ended December 31, 2009, filed on February 25, 2010, as amended on February 26, 2010 (File No. 000-26068).
- (15) Incorporated by reference to Acacia Research Corporation's Annual Report on Form 10-K for the year ended December 31, 2010, filed on February 28, 2011, as amended on March 24, 2011 (File No. 000-26068).  
Incorporated by reference to Acacia Research Corporation's Current Report on Form 8-K/A filed on January 19, 2012 (File No. 000-26068). Portions of this exhibit have been omitted pursuant to a request for confidential treatment under Rule 24-b-2 of the Securities Exchange Act of 1934, as amended. The omitted material has been separately filed with the Securities and Exchange Commission.
- (17) Incorporated by reference to Acacia Research Corporation's Current Report on Form 8-K filed on February 16, 2012 (File No. 000-26068).

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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

Dated: February 29, 2012

By: /s/ Paul R. Ryan  
 Paul R. Ryan  
 Chairman of the Board  
 and Chief Executive Officer  
 (Authorized Signatory)

## POWER OF ATTORNEY

We, the undersigned directors and officers of Acacia Research Corporation, do hereby constitute and appoint Paul R. Ryan and Clayton J. Haynes, and each of them, as our true and lawful attorneys-in-fact and agents with power of substitution, to do any and all acts and things in our name and behalf in our capacities as directors and officers and to execute any and all instruments for us and in our names in the capacities indicated below, which said attorney-in-fact and agent may deem necessary or advisable to enable said corporation to comply with the Securities Exchange Act of 1934, as amended, and any rules, regulations and requirements of the Securities and Exchange Commission, in connection with this Annual Report on Form 10-K, including specifically but without limitation, power and authority to sign for us or any of us in our names in the capacities indicated below, any and all amendments hereto; and we do hereby ratify and confirm all that said attorney-in-fact and agent, shall do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities and Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and the capacities and on the dates indicated.

| Signature  | Title  | Date              |
|--|--|-------------------|
| /s/ Paul R. Ryan<br>Paul R. Ryan                       | Chairman of the Board and<br>Chief Executive Officer<br>(Principal Executive Officer)    | February 29, 2012 |
| /s/ Robert L. Harris, II<br>Robert L. Harris, II       | Director and President   | February 29, 2012 |
| /s/ Clayton J. Haynes<br>Clayton J. Haynes             | Chief Financial Officer and Treasurer<br>(Principal Financial and Accounting<br>Officer) | February 29, 2012 |
| /s/ Fred A. de Boom<br>Fred A. de Boom                 | Director   | February 29, 2012 |
| /s/ Edward W. Frykman<br>Edward W. Frykman             | Director   | February 29, 2012 |
| /s/ G. Louis Graziadio, III<br>G. Louis Graziadio, III | Director   | February 29, 2012 |

/s/ William S. Anderson  
William S. Anderson

Director

February 29, 2012

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders  
Acacia Research Corporation

We have audited the accompanying consolidated balance sheets of Acacia Research Corporation (a Delaware corporation) (the "Company") as of December 31, 2011 and 2010, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Acacia Research Corporation as of December 31, 2011 and 2010, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2011 in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 29, 2012 expressed an adverse opinion on the effectiveness of the Company's internal control over financial reporting.

As discussed in Note 8, the Company elected to change its method of accounting for term agreements in 2009.

/s/ GRANT THORNTON LLP

Irvine, California  
February 29, 2012

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders  
Acacia Research Corporation

We have audited Acacia Research Corporation's (a Delaware Corporation) (the "Company") internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Acacia Research Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on Acacia Research Corporation's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or combination of control deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management's assessment. The Company has identified a material weakness in accounting for intra period income tax expense.

In our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, Acacia Research Corporation has not maintained effective internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control-Integrated Framework issued by COSO. We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Acacia Research Corporation as of December 31, 2011 and 2010, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2011. The material weakness identified above was considered in determining the nature,

timing, and extent of audit tests applied in our audit of the 2011 financial statements, and this report does not affect our audit report dated

February 29, 2012, which expressed an unqualified opinion on those financial statements and contained an explanatory paragraph relating to the change in accounting method for term agreements in 2009.

/s/ GRANT THORNTON LLP

Irvine, California

February 29, 2012

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ACACIA RESEARCH CORPORATION  
CONSOLIDATED BALANCE SHEETS

As of December 31, 2011 and 2010

(In thousands, except share and per share information)

|  | December 31,<br>2011 | December 31,<br>2010 |
|--|----------------------|----------------------|
| <b>ASSETS</b>  |                      |                      |
| Current assets:  |                      |                      |
| Cash and cash equivalents  | \$314,733            | \$102,515            |
| Short-term investments   | 6,597                | —                    |
| Accounts receivable  | 2,915                | 7,987                |
| Prepaid expenses and other current assets  | 803                  | 1,679                |
| Total current assets   | 325,048              | 112,181              |
| Property and equipment, net of accumulated depreciation and amortization   | 220                  | 135                  |
| Patents, net of accumulated amortization   | 25,188               | 19,803               |
| Investments - noncurrent   | 1,956                | 2,001                |
| Other assets   | 465                  | 664                  |
|  | \$352,877            | \$134,784            |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                      |                      |
| Current liabilities:   |                      |                      |
| Accounts payable and accrued expenses  | \$6,625              | \$7,099              |
| Royalties and contingent legal fees payable  | 23,508               | 12,760               |
| Total current liabilities  | 30,133               | 19,859               |
| Other liabilities  | 632                  | 1,072                |
| Total liabilities  | 30,765               | 20,931               |
| Commitments and contingencies (Note 12)  |                      |                      |
| 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; 42,928,001 and 36,029,068 shares issued and outstanding as of December 31, 2011 and 2010, respectively | 43                   | 36                   |
| Additional paid-in capital   | 386,821              | 197,026              |
| Accumulated comprehensive loss   | (1,830               | ) —                  |
| Accumulated deficit  | (65,085              | ) (86,191 )          |
| Total Acacia Research Corporation stockholders' equity   | 319,949              | 110,871              |
| Noncontrolling interests in operating subsidiaries   | 2,163                | 2,982                |
| Total stockholders' equity   | 322,112              | 113,853              |
|  | \$352,877            | \$134,784            |

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

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ACACIA RESEARCH CORPORATION  
CONSOLIDATED STATEMENTS OF OPERATIONS  
For the Years Ended December 31, 2011, 2010 and 2009  
(In thousands, except share and per share information)

|  | 2011       | 2010       | 2009       |
|--|------------|------------|------------|
| Revenues   | \$172,256  | \$131,829  | \$67,340   |
| Operating costs and expenses:  |            |            |            |
| Cost of revenues:  |            |            |            |
| Inventor royalties   | 43,727     | 25,292     | 15,673     |
| Contingent legal fees  | 40,281     | 19,906     | 15,945     |
| Litigation and licensing expenses - patents  | 13,005     | 13,891     | 14,055     |
| Amortization of patents  | 9,745      | 6,931      | 4,634      |
| Verdict insurance proceeds   | (12,451)   | —          | —          |
| Verdict insurance proceeds related costs   | 7,661      | —          | —          |
| Marketing, general and administrative expenses (including non-cash stock compensation expense of \$13,579 in 2011, \$7,121 in 2010, and \$7,065 in 2009) | 35,693     | 25,067     | 21,070     |
| Research, consulting and other expenses - business development   | 4,338      | 2,121      | 1,689      |
| Total operating costs and expenses   | 141,999    | 93,208     | 73,066     |
| Operating income (loss)  | 30,257     | 38,621     | (5,726)    |
| Interest and investment income   | 96         | 135        | 302        |
| Income (loss) from operations before provision for income taxes  | 30,353     | 38,756     | (5,424)    |
| Provision for income taxes   | (8,708)    | (1,740)    | (209)      |
| Net income (loss) including noncontrolling interests in operating subsidiaries   | 21,645     | 37,016     | (5,633)    |
| Net income attributable to noncontrolling interests in operating subsidiaries  | (539)      | (2,965)    | (5,657)    |
| Net income (loss) attributable to Acacia Research Corporation  | \$21,106   | \$34,051   | \$(11,290) |
| Net income (loss) per common share attributable to Acacia Research Corporation:  |            |            |            |
| Basic income (loss) per share  | \$0.53     | \$1.05     | \$(0.38)   |
| Diluted income (loss) per share  | \$0.51     | \$0.97     | \$(0.38)   |
| Weighted-average shares:   |            |            |            |
| Weighted-average number of shares outstanding, basic   | 39,743,433 | 32,306,322 | 29,914,801 |
| Weighted-average number of shares outstanding, diluted   | 41,258,297 | 35,081,611 | 29,914,801 |

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

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ACACIA RESEARCH CORPORATION  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
For the Years Ended December 31, 2011, 2010 and 2009  
(In thousands, except share information)

|   | Common<br>Shares | Common<br>Stock | Additional<br>Paid-in<br>Capital | Other<br>Comprehensive<br>Loss | Accumulated<br>Deficit | Noncontrolling<br>Interests in<br>Operating<br>Subsidiaries | Total     |
|---|------------------|-----------------|----------------------------------|--------------------------------|------------------------|---|-----------|
| Balance at December 31, 2008  | 30,884,994       | \$ 31           | \$ 167,468                       | \$ —                           | \$ (108,952)           | \$ —  | \$ 58,547 |
| 2009  |                  |                 |                                  |                                |                        |   |           |
| Net loss attributable to Acacia Research Corporation                          | —                | —               | —                                | —                              | (11,290)               | —   | (11,290)  |
| Stock options exercised   | 94,700           | —               | 247                              | —                              | —                      | —   | 247       |
| Repurchased restricted common stock   | (174,628)        | —               | (1,107)                          | —                              | —                      | —   | (1,107)   |
| Compensation expense relating to stock options and restricted stock awards    | 1,107,000        | 1               | 7,064                            | —                              | —                      | —   | 7,065     |
| Net income attributable to noncontrolling interests in operating subsidiary   | —                | —               | —                                | —                              | —                      | 5,657   | 5,657     |
| Distributions to noncontrolling interests in operating subsidiary             | —                | —               | —                                | —                              | —                      | (3,150)   | (3,150)   |
| Balance at December 31, 2009  | 31,912,066       | 32              | 173,672                          | —                              | (120,242)              | 2,507   | 55,969    |
| 2010  |                  |                 |                                  |                                |                        |   |           |
| Net income attributable to Acacia Research Corporation                        | —                | —               | —                                | —                              | 34,051                 | —   | 34,051    |
| Stock options exercised   | 2,852,002        | 3               | 15,065                           | —                              | —                      | —   | 15,068    |
| Compensation expense relating to stock options and restricted stock awards    | 1,265,000        | 1               | 7,120                            | —                              | —                      | —   | 7,121     |
| Excess tax benefits from stock-based compensation                             | —                | —               | 1,302                            | —                              | —                      | —   | 1,302     |
| Net income attributable to noncontrolling interests in operating subsidiaries | —                | —               | —                                | —                              | —                      | 2,965   | 2,965     |
| Contributions from noncontrolling interests in operating subsidiary, net      | —                | —               | —                                | —                              | —                      | 2,317   | 2,317     |
| Distributions to noncontrolling interests in operating subsidiary             | —                | —               | —                                | —                              | —                      | (4,807)   | (4,807)   |
| Issuance costs  | —                | —               | (133)                            | —                              | —                      | —   | (133)     |
| Balance at December 31, 2010  | 36,029,068       | 36              | 197,026                          | —                              | (86,191)               | 2,982   | 113,853   |
| 2011  |                  |                 |                                  |                                |                        |   |           |

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|   |            |       |            |             |              |          |            |
|---|------------|-------|------------|-------------|--------------|----------|------------|
| Net income attributable to Acacia Research Corporation                        | —          | —     | —          | —           | 21,106       | —        | 21,106     |
| Sale of common stock, net of issuance costs of \$5,896                        | 5,750,000  | 6     | 175,223    | —           | —            | —        | 175,229    |
| Stock options exercised   | 87,068     | —     | 411        | —           | —            | —        | 411        |
| Compensation expense relating to stock options and restricted stock awards    | 1,061,865  | 1     | 13,578     | —           | —            | —        | 13,579     |
| Excess tax benefits from stock-based compensation                             | —          | —     | 583        | —           | —            | —        | 583        |
| Net income attributable to noncontrolling interests in operating subsidiaries | —          | —     | —          | —           | —            | 539      | 539        |
| Contributions from noncontrolling interests in operating subsidiary, net      | —          | —     | —          | —           | —            | 1,539    | 1,539      |
| Distributions to noncontrolling interests in operating subsidiary             | —          | —     | —          | —           | —            | (2,897 ) | (2,897 )   |
| Unrealized loss on short-term investments                                     | —          | —     | —          | (1,830 )    | —            | —        | (1,830 )   |
| Balance at December 31, 2011  | 42,928,001 | \$ 43 | \$ 386,821 | \$ (1,830 ) | \$ (65,085 ) | \$ 2,163 | \$ 322,112 |

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



ACACIA RESEARCH CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
For the Years Ended December 31, 2011, 2010 and 2009  
(In thousands)

|   | 2011      | 2010     | 2009       |
|---|-----------|----------|------------|
| Cash flows from operating activities:   |           |          |            |
| Net income (loss) including noncontrolling interests in operating subsidiaries  | \$21,645  | \$37,016 | \$(5,633 ) |
| Adjustments to reconcile net income (loss) including noncontrolling interests in operating subsidiaries to net cash provided by operating activities: |           |          |            |
| Depreciation and amortization   | 9,850     | 7,017    | 4,759      |
| Non-cash stock compensation   | 13,579    | 7,121    | 7,065      |
| (Gain) loss on investments  | (15 )     | (32 )    | 47         |
| Changes in assets and liabilities:  |           |          |            |
| Accounts receivable   | 5,072     | (2,877 ) | 2,326      |
| Prepaid expenses and other assets   | 1,075     | (757 )   | (106 )     |
| Accounts payable and accrued expenses   | (1,364 )  | (1,414 ) | 4,836      |
| Royalties and contingent legal fees payable   | 10,748    | 358      | 1,632      |
| Deferred revenues   | —         | (1,510 ) | 1,192      |
| Net cash provided by operating activities   | 60,590    | 44,922   | 16,118     |
| Cash flows from investing activities:   |           |          |            |
| Purchase of property and equipment  | (190 )    | (58 )    | (67 )      |
| Purchase of available-for-sale investments  | (8,427 )  | —        | —          |
| Sale of available-for-sale investments  | 60        | 184      | 1,040      |
| Patent acquisition costs  | (14,680 ) | (8,224 ) | (9,625 )   |
| Net cash used in investing activities   | (23,237 ) | (8,098 ) | (8,652 )   |
| Cash flows from financing activities:   |           |          |            |
| Proceeds from sale of common stock, net of issuance costs   | 175,229   | —        | —          |
| Distributions to noncontrolling interests in operating subsidiary   | (2,897 )  | (4,807 ) | (3,150 )   |
| Contributions from noncontrolling interests in operating subsidiary, net of issuance costs  | 1,539     | 2,393    | —          |
| Repurchased restricted common stock   | —         | —        | (1,107 )   |
| Proceeds from the exercise of stock options   | 411       | 15,068   | 247        |
| Excess tax benefits from stock-based compensation   | 583       | 1,302    | —          |
| Net cash provided by (used in) financing activities   | 174,865   | 13,956   | (4,010 )   |
| Increase in cash and cash equivalents   | 212,218   | 50,780   | 3,456      |
| Cash and cash equivalents, beginning  | 102,515   | 51,735   | 48,279     |

|                                   |           |           |          |
|-----------------------------------|-----------|-----------|----------|
| Cash and cash equivalents, ending | \$314,733 | \$102,515 | \$51,735 |
|-----------------------------------|-----------|-----------|----------|

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

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ACACIA RESEARCH CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 1. DESCRIPTION OF BUSINESS

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

Acacia's operating subsidiaries acquire, develop, license and otherwise enforce patented technologies. Acacia's operating subsidiaries generate revenues and related cash flows from the granting of intellectual property rights for the use of, or pertaining to, patented technologies that such operating subsidiaries own or control. Acacia's operating subsidiaries assist patent owners with the prosecution and development of their patent portfolios, the protection of their patented technologies from unauthorized use, the generation of revenue from users of their patented technologies and, if necessary, the enforcement against unauthorized users of their patented technologies. Currently, on a consolidated basis, Acacia's operating subsidiaries own or control the rights to over 200 patent portfolios, which include U.S. patents and certain foreign counterparts, covering technologies used in a wide variety of industries.

Acacia was incorporated on January 25, 1993 under the laws of the State of California. In December 1999, it changed its state of incorporation from California to Delaware.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Principles and Fiscal Year End. The consolidated financial statements and accompanying notes are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America. Acacia has a December 31 fiscal year end.

Principles of Consolidation. 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 stockholders' equity for the applicable periods presented. Consolidated net income or (loss) is adjusted to include the net (income) or loss attributed to noncontrolling interests in the consolidated statements of operations for the applicable periods presented. Refer to the accompanying consolidated statements of stockholders' equity for total noncontrolling interests for the applicable periods presented. For the periods presented, net (income) loss attributable to noncontrolling interests in operating subsidiaries was comprised of the following (in thousands):

|   | 2011    | 2010      | 2009      |
|---|---------|-----------|-----------|
| Net income attributable to noncontrolling interests <sup>(1)</sup>          | \$—     | \$(3,191) | \$(5,657) |
| Net (income) loss attributable to noncontrolling interests - Acacia IP Fund | (539)   | 226       | —         |
| Total net income attributable to noncontrolling interests                   | \$(539) | \$(2,965) | \$(5,657) |

<sup>(1)</sup> Net income attributable to noncontrolling interests in operating subsidiary represents net inventor royalties distributable to noncontrolling interests in one of Acacia's majority-owned operating subsidiaries.

Change in Accounting Policy for Term Agreements. Effective October 1, 2009, the Company elected to change its method of accounting for its term agreements to recognize revenue when delivery of the intellectual property rights and all other arrangement deliverables has substantially occurred. Refer to Note 8 to these notes to consolidated financial statements for additional information.

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

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ACACIA RESEARCH CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

Certain of the Company's revenue arrangements provide for future royalties or additional required payments based on future licensee activities. Additional royalties are recognized in revenue upon resolution of the related contingency provided that all revenue recognition criteria, as described above, have been met. Amounts of additional royalties due under these license agreements, if any, cannot be reasonably estimated by management.

Certain of the Company's revenue arrangements provide for the calculation of fees based on a licensee's actual quarterly sales or actual per unit activity, applied to a contractual royalty rate. Licensees that pay fees on a quarterly basis generally report actual quarterly sales or actual per unit activity information and related quarterly fees due within 30 to 45 days after the end of the quarter in which such sales or activity takes place. The amount of fees due under these revenue arrangements each quarter cannot be reasonably estimated by management. Consequently, Acacia's operating subsidiaries recognize revenue from these revenue arrangements on a three-month lag basis, in the quarter following the quarter of sales or per unit activity, provided amounts are fixed or determinable and collectibility is reasonably assured. The lag method described above allows for the receipt of licensee royalty reports prior to the recognition of revenue.

Amounts related to revenue arrangements that do not meet the revenue recognition criteria described above are deferred until the revenue recognition criteria are met.

Acacia assesses the collectibility of fees receivable based on a number of factors, including past transaction history and credit-worthiness of licensees. If it is determined that collection is not reasonably assured, the fee is recognized when collectibility becomes reasonably assured, assuming all other revenue recognition criteria have been met, which is generally upon receipt of cash.

**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 acquisition 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, costs paid by Acacia's operating subsidiaries to acquire patents are recoverable from future net revenues. Patent acquisition 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 patent acquisition costs 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. Legal fees advanced by contingent law firms that are required to be paid in the event that no license recoveries are obtained are expensed as incurred and included in liabilities in the consolidated balance sheets.

ACACIA RESEARCH CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Fair Value Measurements. U.S. generally accepted accounting principles define 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.

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

Investments in Marketable Securities. Investments in securities with original maturities of greater than three months and less than one year and other investments representing amounts that are available for current operations are classified as short-term investments, unless there are indications that such investments may not be readily sold in the short term. The fair values of these investments approximate their carrying values. At December 31, 2011 and 2010, all of Acacia's investments were classified as available-for-sale, which are reported at fair value on a recurring basis using significant observable inputs (Level 1) whenever possible, with related unrealized gains and losses in the value of such securities recorded as a separate component of comprehensive income (loss) in stockholders' equity until realized. Realized and unrealized gains and losses are recorded based on the specific identification method. Interest on all securities are included in interest income. Refer to Note 7 to these notes to consolidated financial statements for information on the fair value and classification of auction rate securities held as of December 31, 2011 and 2010.

Impairment of Marketable Securities. Acacia evaluates its investments in marketable securities for potential impairment, employing a systematic methodology on a quarterly basis that considers available quantitative and qualitative evidence. If the cost or carrying value of an investment exceeds its estimated fair value, the Company evaluates, among other factors, general market conditions, credit quality of instrument issuers, the duration and extent to which the fair value is less than cost, and the Company's intent and ability to hold, or plans or ability to sell. Fair value is estimated based on publicly available market information or other estimates determined by management. Investments are considered to be impaired when a decline in fair value is estimated to be other-than-temporary. Acacia reviews impairments associated with its investments in marketable securities and determines the classification of any impairment as temporary or other-than-temporary. An impairment is deemed other-than-temporary unless (a) Acacia has the ability and intent to hold an investment for a period of time sufficient for recovery of its carrying amount and (b) positive evidence indicating that the investment's carrying amount is recoverable within a reasonable period of time outweighs any evidence to the contrary. All available evidence, both positive and negative, is considered to determine whether, based on the weight of such evidence, the carrying amount of the investment is recoverable within a reasonable period of time. For investments classified as available-for-sale, unrealized losses that are other-than-temporary are recognized in the consolidated statements of operations.

Concentration of Credit Risks. Financial instruments that potentially subject Acacia to concentrations of credit risk are cash equivalents, investments and accounts receivable. Acacia places its cash equivalents and investments primarily in highly rated money market funds and investment grade, marketable securities. 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 26%, 17% and 15%, respectively, of revenues recognized during the year ended December 31, 2011. Two licensees accounted for 35% and 19%, respectively, of revenues recognized during the year ended December 31, 2010. Two licensees accounted for 15% and 12%, respectively, of revenues recognized during the year ended December 31, 2009. Five licensees represented approximately 18%, 15%, 14%, 13% and 10% of accounts receivable at

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December 31, 2011. One licensee represented approximately 74% of accounts receivable at December 31, 2010.

Acacia performs regular credit evaluations of its licensees with significant receivable balances, if any, and has not experienced any significant credit losses. Accounts receivable are recorded at the executed contract amount and generally do not bear interest. Collateral is not required.

**Property and Equipment.** Property and equipment are recorded at cost. Major additions and improvements that materially extend useful lives of property and equipment are capitalized. Maintenance and repairs are charged against the results of operations as incurred. When these assets are sold or otherwise disposed of, the asset and related depreciation are relieved, and any gain or loss is included in the consolidated statements of operations for the period of sale or disposal. Depreciation and amortization is computed on a straight-line basis over the following estimated useful lives of the assets:

|                                |   |
|--------------------------------|---|
| Furniture and fixtures         | 3 to 5 years  |
| Computer hardware and software | 3 to 5 years  |
| Leasehold improvements         | 2 to 5 years (Lesser of lease term or useful life of improvement) |

Rental payments on operating leases are charged to expense in the consolidated statements of operations on a straight-line basis over the lease term.

**Organization Costs.** Costs of start-up activities, including organization costs, are expensed as incurred.

**Patents.** Patents includes the cost of patents or patent rights (hereinafter, collectively "patents"), acquired. Patent acquisition costs are amortized on the straight-line method over their remaining economic useful lives, ranging from one to seven years.

**Impairment of Long-lived Assets.** Acacia reviews long-lived assets and intangible assets for potential impairment annually and when events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. In the event the sum of 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 equal to the excess of the asset's carrying value over its fair value is recorded. 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.

**Fair Value of Financial Instruments.** The carrying value of cash and cash equivalents, investments, accounts receivables, accounts payable and accrued expenses approximates their fair values due to their short-term maturities.

**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 valuation model. Stock-based compensation expense is recorded only for those awards expected to vest using an estimated forfeiture rate. Refer to Note 11 to these notes to consolidated financial statements for information on stock-based awards granted for the periods presented.

**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 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.

Under U.S. generally accepted accounting principles, a tax position is a position in a previously filed tax return or a position expected to be taken in a future tax filing that is reflected in measuring current or deferred income tax assets and liabilities. Tax positions are recognized only when it is more likely than not (likelihood of greater than 50%), based on technical merits, that the position will be sustained upon examination. Tax positions that meet the more likely than not threshold are measured using a probability weighted approach as the largest amount of tax benefit that is greater than 50% likely of being realized upon settlement.

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The total amount of unrecognized tax benefits as of December 31, 2011, 2010 and 2009 was \$85,000, all of which, if recognized, would affect the effective tax rate.

Acacia recognizes interest and penalties with respect to unrecognized tax benefits in income tax expense. Acacia has identified no uncertain tax position for which it is reasonably possible that the total amount of unrecognized tax benefits will significantly increase or decrease within 12 months.

Acacia is subject to taxation in the U.S. and various state jurisdictions. With no material exceptions, Acacia is no longer subject to U.S. federal or state examinations by tax authorities for years before 1995.

At December 31, 2011, Acacia had U.S. federal and state income tax net operating loss carryforwards ("NOL") as summarized in Note 10 to these notes to consolidated financial statements. Due to uncertainties surrounding Acacia's ability to generate future taxable income to realize these assets, a full valuation allowance has been established to offset its net deferred tax assets.

If a deduction reported on a tax return for an equity-based incentive award exceeds the cumulative compensation cost for those instruments recognized for financial reporting purposes, any resulting realized tax benefit that exceeds the previously calculated deferred tax asset for those instruments is considered an excess tax benefit, and is recognized as additional paid-in capital.

**Comprehensive Income (Loss).** Comprehensive income (loss) is the change in equity from transactions and other events and circumstances other than those resulting from investments by owners and distributions to owners. Consolidated comprehensive income for Acacia, comprised of net income attributable to Acacia of \$21,106,000, and unrealized loss on short-term investments of \$1,830,000, totaled \$19,276,000 for the year ended December 31, 2011. Consolidated comprehensive income (loss) for Acacia was equal to net income (loss) attributable to Acacia for the years ended December 31, 2010 and 2009.

**Segment Reporting.** Acacia uses the management approach, which designates the internal organization that is used by management for making operating decisions and assessing performance as the basis of Acacia's reportable segments. Acacia's intellectual property licensing and enforcement business constitutes its single reportable segment.

**Use of Estimates.** The preparation of financial statements in conformity with generally accepted accounting principles 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, valuation of long-lived and intangible assets and impairment of marketable securities, require its most difficult, subjective or complex judgments.

**Earnings (Loss) Per Share.** Basic income (loss) per share is computed based upon the weighted-average number of common shares outstanding, excluding unvested restricted stock. Diluted income (loss) per share is computed based upon the weighted-average number of common shares outstanding, including the dilutive effect of common stock equivalents outstanding during the periods. Potentially dilutive common stock equivalents primarily consist of employee stock options, unvested restricted stock, and restricted stock units ("Equity-based Incentive Awards").

Potentially dilutive common shares from Equity-based Incentive Awards are determined by applying the treasury stock method to the assumed exercise of outstanding employee stock options, and the assumed vesting of outstanding unvested restricted stock and restricted stock units.

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

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|  | 2011       | 2010       | 2009       |
|--|------------|------------|------------|
| Weighted-average common shares outstanding - basic   | 39,743,433 | 32,306,322 | 29,914,801 |
| Dilutive effect of Equity-based Incentive Awards   | 1,514,864  | 2,775,289  | —          |
| Weighted-average common shares outstanding - diluted   | 41,258,297 | 35,081,611 | 29,914,801 |
| Anti-dilutive Equity-based Incentive Awards excluded from the computation of diluted income (loss) per share | 77,760     | 14,768     | 5,144,960  |

Recently Adopted Accounting Pronouncements. Accounting Standards Update No. 2010-06 ("ASU No. 2010-06"). Certain provisions of ASU No. 2010-06 became effective for Acacia during the first quarter of 2011. Those provisions require the Company to disclose in the footnotes as separate line items, all purchases, sales, issuances, and settlements of financial instruments valued using significant unobservable inputs (Level 3) in the reconciliation of fair value measurements, in contrast to the aggregate presentation as a single line item. The adoption of this provision of the standard did not have a material impact on the Company's consolidated financial statements or related disclosures.

New Accounting Pronouncements. In May 2011, the Financial Accounting Standards Board ("FASB") issued a new accounting standard on fair value measurements that clarifies the application of existing guidance and disclosure requirements, changes certain fair value measurement principles and requires additional disclosures about fair value measurements. The standard is effective for interim and annual periods beginning after December 15, 2011. Early adoption is not permitted. The Company does not expect the adoption of this accounting guidance to have a material impact on its consolidated financial statements and related disclosures.

In June 2011, the FASB issued new guidance on the presentation of comprehensive income. The new guidance allows an entity to present components of net income and other comprehensive income in one continuous statement, referred to as the statement of comprehensive income, or in two separate, but consecutive statements. The new guidance eliminates the current option to report other comprehensive income and its components in the statement of changes in stockholders' equity. While the new guidance changes the presentation of comprehensive income, there are no changes to the components that are recognized in net income or other comprehensive income from that of current accounting guidance. This new guidance is effective for fiscal years and interim periods beginning after December 15, 2011. Upon adoption, the Company will present its consolidated financial statements under this new guidance. The Company does not expect the adoption of this accounting guidance to have a material impact on its consolidated financial statements and related disclosures.

In September 2011, the FASB issued new accounting guidance intended to simplify goodwill impairment testing. The Company will be allowed to perform a qualitative assessment on goodwill impairment to determine whether a quantitative assessment is necessary. This guidance is effective for goodwill impairment tests performed in interim and annual periods for fiscal years beginning after December 15, 2011 with early adoption permitted. The Company does not expect the adoption of this accounting guidance to have a material impact on its consolidated financial statements and related disclosures.

### 3. SHORT-TERM INVESTMENTS

Short-term investments at December 31, 2011 were comprised of an equity investment in the common stock of a technology company, classified as available-for-sale, with a cost basis of \$8,427,000, unrealized losses of \$1,830,000 included in other comprehensive loss in the consolidated statement of stockholder's equity as of December 31, 2011, and a recorded basis of \$6,597,000. For the periods presented, equity investments in common stock are reported at fair

value on a recurring basis using significant observable inputs (Level 1). Unrealized loss positions related to equity investments have existed for less than twelve months, and are due to market price movements. Acacia's management does not believe any remaining unrealized losses represent other-than-temporary impairments based on its evaluation of available evidence as of December 31, 2011.

#### 4. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31, 2011 and 2010 (in thousands):

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|   | 2011  | 2010   |
|---|-------|--------|
| Furniture and fixtures                          | \$344 | \$373  |
| Computer hardware and software                  | 454   | 478    |
| Leasehold improvements                          | 165   | 154    |
|   | 963   | 1,005  |
| Less: accumulated depreciation and amortization | (743  | ) (870 |
|   | \$220 | \$135  |

Depreciation expense was \$105,000, \$86,000 and \$125,000 for the years ended December 31, 2011, 2010 and 2009, respectively. In 2011, we retired \$232,000 of fully depreciated items held in property and equipment.

#### 5. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consist of the following at December 31, 2011 and 2010 (in thousands):

|  | 2011    | 2010    |
|--|---------|---------|
| Accounts payable                               | \$354   | \$359   |
| Payroll and other employee benefits            | 909     | 941     |
| Accrued vacation                               | 693     | 589     |
| Accrued legal expenses - patent                | 1,765   | 2,535   |
| Accrued consulting and other professional fees | 1,286   | 1,786   |
| Accrued patent acquisition related payments    | 900     | 300     |
| Accrued taxes payable                          | 583     | 198     |
| Other accrued liabilities                      | 135     | 391     |
|  | \$6,625 | \$7,099 |

#### 6. PATENTS

Acacia's only identifiable intangible assets are patents and patent rights, with estimated remaining economic useful lives ranging from one to seven years. The gross carrying amounts and accumulated amortization related to acquired intangible assets as of December 31, 2011 and 2010 are as follows (in thousands):

|                                    | 2011     | 2010      |
|------------------------------------|----------|-----------|
| Gross carrying amount - patents    | \$61,519 | \$51,001  |
| Accumulated amortization - patents | (36,331  | ) (31,198 |
| Patents, net                       | \$25,188 | \$19,803  |

The weighted-average remaining estimated economic useful life of Acacia's patents and patent rights is five years. Scheduled annual aggregate amortization expense for each of the next five years through December 31, 2016 is estimated to be \$5,115,000 in 2012, \$4,896,000 in 2013, \$4,707,000 in 2014, \$4,264,000 in 2015 and \$3,118,000 in 2016.

For the years ended December 31, 2011, 2010 and 2009, on a consolidated basis, Acacia's operating subsidiaries incurred and capitalized patent and patent rights acquisition costs totaling \$14,680,000, \$8,224,000 and \$9,625,000, respectively. The patents have estimated economic useful lives ranging from one to seven years and are being

amortized over weighted-average economic useful lives of seven years. For all periods presented, all of Acacia's acquired intangible assets were subject to amortization. Included in capitalized patent costs as of December 31, 2011 and 2010 are \$900,000 and \$1,050,000, respectively, of accrued future patent-related acquisition costs that management expects to incur pursuant to the terms of the underlying patent acquisition agreements, which are being amortized over the estimated economic useful life of the patents acquired.

During the periods presented, certain operating subsidiaries recovered up-front patent portfolio acquisition costs from

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applicable net licensing proceeds prior to the scheduled amortization of such up-front patent portfolio acquisition costs, resulting in the acceleration of amortization expense for the applicable patent-related assets. For the years ended December 31, 2011, 2010 and 2009, accelerated amortization expense related to the recovery of up-front patent acquisition costs totaled \$3,111,000, \$1,171,000 and \$42,000, respectively.

In 2011 and 2010, pursuant to the terms of the respective inventor agreements, certain Acacia operating subsidiaries elected to terminate their rights to patent portfolios, resulting in the acceleration of amortization expense for the patent-related assets totaling \$821,000 and \$275,000, respectively.

Patent costs and accumulated amortization related to patent-related disposals totaled \$4,612,000 and \$3,509,000, respectively, for the year ended December 31, 2011. Patent costs and accumulated amortization related to patent-related disposals totaled \$1,540,000 and \$1,108,000, respectively, for the year ended December 31, 2010. Proceeds of \$11,000,000 and \$240,000, and costs of \$4,717,000 and \$94,000, related to the sale of patents, are included in net operating income for the years ended December 31, 2011 and 2010, respectively.

## 7. FAIR VALUE MEASUREMENTS AND AUCTION RATE SECURITIES

As of December 31, 2011 and 2010, Acacia held investment grade auction rate securities with a par value totaling \$2,425,000 and \$2,485,000, respectively, consisting of auction rate investments backed by student loans, issued under programs such as the Federal Family Education Loan Program, which are classified as available-for-sale and reflected at fair value. Auction rate securities are classified as noncurrent for the periods presented. Contractual maturity dates range up to thirty-five years, with reset dates every 7 to 63 days.

Due to liquidity issues in the global credit and capital markets, these securities have experienced failed auctions since February 2008. In the case of a failure, the auction rate securities continue to pay interest at the maximum contractual rate in accordance with their terms; however, Acacia may not be able to access the par value of the invested funds until a future auction of these investments is successful, the security is called by the issuer, or a buyer is found outside of the auction process.

The fair values of these securities were estimated utilizing an analysis of certain unobservable inputs and by reference to a discounted cash flow analysis as of December 31, 2011 and 2010. These analyses considered, among other items, the underlying structure of each security, the collateral underlying the security investments, the creditworthiness of the counterparty, the present value of future principal and contractual interest payments discounted at rates considered to be reflective of current market conditions, consideration of the probabilities of default, continued auction failure, or repurchase or redemption at par for each period, and estimates of the time period over which liquidity related issues will be resolved. Observable market data for instruments with similar characteristics to Acacia's auction rate securities was also considered when possible.

Acacia recorded an other-than-temporary loss of \$296,000 in the statement of operations for the year ended December 31, 2009. As a result of partial redemptions at par on certain of these auction rate securities subsequent to June 30, 2008, Acacia recorded net realized gains totaling \$15,000, \$32,000 and \$13,000 for the years ended December 31, 2011, 2010 and 2009, respectively, reflecting partial recoveries of the other-than-temporary losses originally recorded on these securities. As of December 31, 2011, the net other-than-temporary loss on auction rate securities collateralized by student loan portfolios totaled \$469,000.

All of Acacia's auction rate securities issued by closed-end investment companies were redeemed at par as of December 31, 2009, resulting in realized gains totaling \$236,000 for the year ended December 31, 2009, reflecting the

full recovery of the other-than-temporary loss originally recorded on these securities.

Acacia will continue to monitor and evaluate its investments in auction rate securities for any further potential impairment in future periods. If it is determined that any future valuation adjustments are other-than-temporary, Acacia would record additional charges to earnings as appropriate.

The following table presents the assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) at December 31, 2011 and 2010 (in thousands):

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|   | 2011    | 2010    |
|---|---------|---------|
| Auction rate securities:                          |         |         |
| Beginning balance as of January 1                 | \$2,001 | \$2,152 |
| Total gains or (losses) (realized or unrealized): |         |         |
| Recognized (losses) included in earnings          | —       | —       |
| Recognized gains included in earnings             | 15      | 49      |
| Settlements                                       | (60     | ) (200  |
| Ending balance as of December 31                  | \$1,956 | \$2,001 |

## 8. CHANGE IN ACCOUNTING POLICY

Certain revenue agreements provide for the payment of a minimum upfront fee at the inception of each contractual term in consideration for the respective intellectual property rights granted, hereinafter referred to as “term agreements.” Effective October 1, 2009, the Company elected to change its method of accounting for its term agreements to recognize revenue when delivery of the intellectual property rights and all other arrangement deliverables has substantially occurred, which is typically at the time of execution of the related term agreement, or upon receipt of the applicable minimum upfront renewal payment, and when all other revenue recognition criteria, as described in Note 2 to these notes to consolidated financial statements, have been met. Prior to the change in the Company’s method of accounting, fees for term agreements were deferred and amortized to revenue on a straight-line basis over the applicable contractual license term. The new method was adopted as it provides a consistent approach to accounting for all of the Company’s license arrangements with similar significant terms and conditions and more closely reflects the culmination of the earnings process associated with these revenue arrangements.

The change was accounted for through retrospective application of the new accounting policy as of January 1, 2009. The effect of applying the new accounting policy to term agreements in periods prior to fiscal year 2009 was not material. Accordingly, the Company’s consolidated financial statements for years ending prior to January 1, 2009 have not been retroactively adjusted for this change in accounting policy.

## 9. STOCKHOLDERS’ EQUITY

## Equity Offering

In March 2011, Acacia completed a public offering of 5,750,000 shares of common stock. The public offering price was \$31.50 per share, and the net proceeds to the Company totaled approximately \$175,229,000, after deducting underwriting discounts and related offering expenses. Acacia retained broad discretion over the use of the net proceeds from the sale of common stock and intends to use the net proceeds for operations and for other general corporate purposes, including, but not limited to, working capital, strategic acquisitions and other transactions.

## Repurchase of Restricted Common Stock

In May 2009, Acacia’s board of directors approved a restricted stock vesting net issuance program. Under the program, upon the vesting of unvested shares of restricted common stock, Acacia withheld from fully vested shares of common stock otherwise deliverable to any employee-participant in Acacia’s equity compensation programs, a number of whole shares of common stock having a fair market value (as determined by Acacia as of the date of vesting) equal to the amount of tax required to be withheld by law, in order to satisfy the tax withholding obligations of Acacia in

connection with the vesting of such shares. Of a total of 580,600 shares of restricted stock vested between June 2009 and September 2009, 174,628 shares of common stock were withheld by Acacia, in satisfaction of \$1,107,000 in required withholding tax liability.

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## 10. INCOME TAXES

Acacia's provision for income taxes consists of the following (in thousands):

|               | 2011    | 2010    | 2009  |
|---------------|---------|---------|-------|
| Current:      |         |         |       |
| Federal       | \$ 179  | \$—     | \$—   |
| State taxes   | 943     | 1,473   | 209   |
| Foreign taxes | 7,586   | 267     | —     |
|               | \$8,708 | \$1,740 | \$209 |

The tax effects of temporary differences and carryforwards that give rise to significant portions of deferred tax assets and liabilities consist of the following at December 31, 2011 and 2010 (in thousands):

|   | 2011     | 2010     |
|---|----------|----------|
| Deferred tax assets:  |          |          |
| Net operating loss and capital loss carryforwards and credits | \$7,626  | \$13,988 |
| Amortization and depreciation                                 | 6,252    | 5,702    |
| Stock compensation  | 2,665    | 1,595    |
| Basis of investments in affiliates                            | 1,375    | 1,344    |
| Accrued liabilities and other                                 | 471      | 550      |
| Unrealized loss on short-term investments                     | 746      | —        |
| State taxes   | 124      | 5        |
| Intangibles   | —        | 100      |
| Other   | 278      | —        |
| Total deferred tax assets                                     | 19,537   | 23,284   |
| Less: valuation allowance                                     | (19,537) | (23,284) |
| Net deferred taxes  | \$—      | \$—      |

A reconciliation of the federal statutory income tax rate and the effective income tax rate is as follows:

|   | 2011 | 2010    | 2009    |
|---|------|---------|---------|
| Statutory federal tax rate                                | 35   | % 34    | % 34    |
| State income and foreign taxes, net of federal tax effect | 27   | % 5     | % (4)   |
| Foreign tax credit  | (25) | )% —    | —       |
| Noncontrolling interests in operating subsidiaries        | (1)  | )% (3)  | )% 40   |
| Equity compensation                                       | —    | (1)     | )% (1)  |
| Non deductible permanent items                            | 4    | % —     | —       |
| Expired net operating loss carryforwards                  | 1    | % 1     | % —     |
| Valuation allowance                                       | (12) | )% (32) | )% (73) |
|   | 29   | % 4     | % (4)   |

At December 31, 2011, Acacia has established a full valuation allowance against its net deferred tax assets, due to management's determination that the criteria for recognition have not been met. At December 31, 2011, Acacia had U.S. federal and state income tax NOLs totaling approximately \$69,062,000 and \$61,493,000, expiring between 2020 and 2030, and 2015 and 2030, respectively, for which \$11,302,000 and \$3,911,000 of federal and state net operating losses are included as a deferred tax asset which will be credited to additional paid-in capital when realized as a

reduction of taxes payable on Acacia's tax return. In addition, \$57,760,000 and \$33,108,000 of federal and state net operating losses are not included as a deferred tax asset and will be credited to additional paid-in capital when realized as a reduction of taxes payable on Acacia's tax return as they relate to unrecognized excess tax benefits. As of December 31, 2011, \$3,956,000 and \$228,000 of the valuation allowance related to the tax benefits of stock option deductions included in Acacia's federal and state NOLs deferred tax asset,

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respectively.

The Company has elected to utilize the “with-and-without approach” regarding ordering of windfall tax benefits to determine whether the windfall tax benefit has reduce taxes payable. Under this approach, the windfall tax benefits would be recognized in additional paid in capital only if an incremental tax benefit is realized after considering all other tax benefits presently available to the Company. Accordingly, the Company has \$7,625,000 of foreign tax credits (expiring between 2020 and 2021) at December 31, 2011, and \$6,300,000 of these credits have not been recorded as a deferred tax asset as the benefit will be credited to additional paid in capital when realized as a reduction of tax payable on Acacia's tax returns.

The increase in the Company's effective tax rate for the year ended December 31, 2011, as compared to the year ended December 31, 2010, primarily reflects the impact of foreign withholding taxes totaling \$7.6 million, which were withheld by the applicable foreign tax authority pursuant to the requirements of the applicable income tax convention, on payments in connection with certain licensing arrangements executed during fiscal year 2011. In general, foreign taxes withheld may be claimed as a deduction on future U.S. corporate income tax returns, or as a credit against future U.S. income tax liabilities, subject to certain limitations.

The increase in the Company's tax expense for the year ended December 31, 2010, as compared to the year ended December 31, 2009, primarily reflects the impact of the suspension of the use of NOLs in California and the calculation of tax expense for financial reporting purposes without the excess tax benefit related to the exercise and vesting of equity-based incentive awards during the year ended December 31, 2010.

The deductions related to the exercise and vesting of equity-based incentive awards during the periods presented are, in general, available to offset taxable income on Acacia's consolidated tax returns (subject to suspension of use for certain tax years in California, as described below). Accordingly, the excess tax benefit related to the exercise and vesting of equity-based incentive awards for the periods presented, was credited to additional paid-in capital, not taxes payable. The actual tax benefit realized for excess tax deductions resulting from the exercise and vesting of equity-based incentive awards (noncash tax expense) totaled \$583,000 and \$1,302,000 for the years ended December 31, 2011 and 2010, respectively.

In October 2010, the State of California passed a state budget including provisions furthering the suspension of the use of NOLs, for the 2010 and 2011 tax years. As a result, California State NOLs are not available to offset California taxable income for the 2010 or 2011 tax years.

In connection with a review of historical NOLs during the year ended December 31, 2011, Acacia has reduced NOLs related to the 2000 tax year by approximately \$10 million due to uncertainty of realization in future periods. Acacia retroactively corrected its deferred tax asset balances and the related valuation allowance in the table above by approximately \$3.5 million. There was no other impact to the financial statements for this correction. Management concluded this correction was not material to the annual financial statements.

The U.S. Internal Revenue Service is auditing our 2009 Federal consolidated income tax return. The audit is in process and no findings or adjustments have been proposed by the IRS.

## 11. STOCK-BASED INCENTIVE PLANS

The 2002 Acacia Technologies Stock Incentive Plan (“2002 Plan”) and the 2007 Acacia Technologies Stock Incentive Plan (“2007 Plan”) (collectively, the “Plans”) were approved by the stockholders of Acacia in December 2002 and May

2007, respectively. Both Plans allow grants of stock options, stock awards and performance shares with respect to Acacia common stock to eligible individuals, which generally includes directors, officers, employees and consultants. Except as noted below, the terms and provisions of the Plans are identical in all material respects.

Acacia's compensation committee administers the discretionary option grant and stock issuance programs. The compensation committee determines which eligible individuals are to receive option grants or stock issuances under those programs, the time or times when the grants or issuances are to be made, the number of shares subject to each grant or issuance, the status of any granted option as either an incentive stock option or a non-statutory stock option under the federal tax laws, the vesting schedule to be in effect for the option grant or stock issuance and the maximum term for which any granted option is to remain outstanding. The exercise price of options is generally equal to the fair market value of Acacia's common stock on the date of grant. Options generally begin to be exercisable six months to one year after grant and generally expire ten years after grant. Stock options generally vest over two to three years and restricted shares generally vest in full after two to three years (generally representing the requisite service period).

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Programs

The Plans provide for the following separate programs:

**Discretionary Option Grant Program.** Under the discretionary option grant program, Acacia's compensation committee may grant (1) non-statutory options to purchase shares of common stock to eligible individuals in the employ or service of Acacia or its subsidiaries (including employees, non-employee board members and consultants) at an exercise price not less than 85% of the fair market value of those shares on the grant date, and (2) incentive stock options to purchase shares of common stock to eligible employees at an exercise price not less than 100% of the fair market value of those shares on the grant date (not less than 110% of fair market value if such employee actually or constructively owns more than 10% of Acacia's voting stock or the voting stock of any of its subsidiaries).

**Stock Issuance Program.** Under the stock issuance program, eligible individuals may be issued shares of common stock directly, upon the attainment of performance milestones or the completion of a specified period of service or as a bonus for past services. Under this program, the purchase price for the shares shall not be less than 100% of the fair market value of the shares on the date of issuance, and payment may be in the form of cash or past services rendered.

**Automatic Option Grant Program (2002 Plan only).** Commencing in fiscal 2008, each non-employee director will receive restricted stock units for the number of shares determined by dividing the annual retainer by the closing price of Acacia's common stock on the grant date, provided that such individual has served as a non-employee director for at least 6 months. In addition, as of May 2007, each new non-employee director will receive restricted stock units for the number of shares determined by dividing the annual board of directors retainer by the closing price of Acacia's common stock on the commencement date. Restricted stock units vest in a series of twelve quarterly installments over the three year period following the grant date, subject to immediate acceleration upon a change in control. Acacia will deliver shares corresponding to the vested restricted stock units within thirty (30) days after the first to occur of the following events: (i) the fifth (5th) anniversary of the grant date; or (ii) termination of the non-employee director's service as a member of the Company's Board of Directors. The non-employee directors do not have any rights, benefits or entitlements with respect to any shares unless and until the shares have been delivered.

The number of shares of common stock available for issuance under the 2002 Plan automatically increases on the first trading day of January each calendar year during the term of the Plan by an amount equal to three percent (3%) of the total number of shares of common stock outstanding on the last trading day in December of the immediately preceding calendar year, but in no event shall any such annual increase exceed 500,000 shares. The aggregate number of shares of common stock available for issuance under the 2002 Plan shall not exceed 20,000,000 shares. At December 31, 2011, there were 598,000 shares available for grant under the 2002 Plan.

The initial share reserve under the 2007 Plan was 560,000 shares. The number of shares of common stock available for issuance under the 2007 Plan automatically increased on January 1, 2008 and 2009, by an amount equal to two percent (2%) of the total number of shares of common stock outstanding on the last trading day of December in the prior calendar year. After January 1, 2009, no new additional shares will be added to the 2007 Plan without stockholder approval (except for shares subject to outstanding awards that are forfeited or otherwise returned to the 2007 Plan). At December 31, 2011, there were no shares available for grant under the 2007 Plan.

The shares authorized for future issuance represents the total number of shares available through any combination of stock options or other awards. Upon the exercise of stock options, the granting of restricted stock, or the delivery of shares pursuant to vested restricted stock units, it is Acacia's policy to issue new shares of common stock.

Acacia's board of directors may amend or modify the Plans at any time, subject to any required stockholder approval. The Plans will terminate no later than the tenth anniversary of the approval of the incentive plans by Acacia's stockholders.

The following table summarizes stock option activity for the Plans for the year ended December 31, 2011:

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ACACIA RESEARCH CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

|                                  | Options   | Weighted-Average<br>Exercise<br>Price | Remaining<br>Contractual<br>Term | Aggregate<br>Intrinsic<br>Value |
|----------------------------------|-----------|---------------------------------------|----------------------------------|---------------------------------|
| Outstanding at December 31, 2010 | 521,000   | \$5.41                                |                                  |                                 |
| Exercised                        | (87,000 ) | \$4.73                                |                                  |                                 |
| Outstanding at December 31, 2011 | 434,000   | \$5.55                                | 2.8 years                        | \$13,442,000                    |
| Vested                           | 434,000   | \$5.55                                | 2.8 years                        | \$13,442,000                    |
| Exercisable at December 31, 2011 | 434,000   | \$5.55                                | 2.8 years                        | \$13,442,000                    |

The aggregate intrinsic value of options exercised during the years ended December 31, 2011, 2010 and 2009 was \$2,822,000, \$40,994,000, and \$541,000, respectively. The aggregate fair value of options that vested during the years ended December 31, 2011, 2010 and 2009 was \$0, \$209,000 and \$587,000, respectively.

The following table summarizes nonvested restricted share activity for the year ended December 31, 2011:

|   | Nonvested<br>Restricted<br>Shares | Weighted<br>Average Grant Date<br>Fair Value |
|---|-----------------------------------|--|
| Nonvested restricted stock at December 31, 2010 | 1,623,000                         | \$6.85                                       |
| Granted   | 1,107,000                         | \$29.24                                      |
| Vested  | (1,180,000 )                      | \$9.36                                       |
| Canceled  | (45,000 )                         | \$17.72                                      |
| Nonvested restricted stock at December 31, 2011 | 1,505,000                         | \$21.01                                      |

The weighted-average grant date fair value of nonvested restricted stock granted during the years ended December 31, 2011, 2010 and 2009 was \$29.24, \$8.61, and \$3.51, respectively. The aggregate fair value of restricted stock that vested during the years ended December 31, 2011, 2010 and 2009 was \$11,043,000, \$6,914,000, \$6,291,000, respectively. As of December 31, 2011, the total unrecognized compensation expense related to nonvested restricted stock awards was \$23,975,000, which is expected to be recognized over a weighted-average period of approximately 1.9 years.

The following table summarizes restricted stock unit activity for the year ended December 31, 2011:

|   | Restricted<br>Stock Units | Weighted<br>Average<br>Grant Date<br>Fair Value |
|---|---------------------------|---|
| Nonvested restricted stock units outstanding at December 31, 2010 | 38,000                    | \$8.12  |
| Granted   | 15,000                    | \$24.87   |
| Vested  | (27,000 )                 | \$9.41  |
| Nonvested restricted stock units outstanding at December 31, 2011 | 26,000                    | \$16.57   |
| Vested restricted stock units outstanding at December 31, 2011    | 72,000                    | \$7.56  |

The weighted-average grant date fair value of restricted stock units granted during the years ended December 31, 2011, 2010 and 2009 was \$24.87, \$11.99 and \$3.50, respectively. The aggregate fair value of restricted stock units that vested during the years ended December 31, 2011, 2010 and 2009 was \$257,000, \$158,000 and \$84,000,

respectively. As of December 31, 2011, the total unrecognized compensation expense related to restricted stock unit awards was \$367,000, which is expected to be recognized over a weighted-average period of approximately 1.7 years.

As of December 31, 2011, 1,131,000 shares of common stock are reserved for issuance under the Plans.

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ACACIA RESEARCH CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 12. COMMITMENTS AND CONTINGENCIES

### Operating Leases

Acacia leases certain office space under various operating lease agreements expiring at various dates from 2013 through 2016. Minimum annual rental commitments for operating leases of continuing operations having initial or remaining noncancellable lease terms in excess of one year are as follows (in thousands):

|                              |             |
|------------------------------|-------------|
| Year                         |             |
| 2012                         | \$675,000   |
| 2013                         | 761,000     |
| 2014                         | 690,000     |
| 2015                         | 718,000     |
| 2016                         | 366,000     |
| Total minimum lease payments | \$3,210,000 |

Rent expense for the years ended December 31, 2011, 2010 and 2009 approximated \$915,000, \$1,011,000 and \$983,000, respectively. Rental payments are expensed in the statements of operations in the period to which they relate. Scheduled rent increases are amortized on a straight-line basis over the lease term.

### Inventor Royalties and Contingent Legal Expenses

In connection with the acquisition of certain patents and patent rights, certain of Acacia's operating subsidiaries executed related agreements which grant to the former owners of the respective patents or patent rights, the right to receive inventor royalties based on future net revenues (as defined in the respective agreements) generated as a result of licensing and otherwise enforcing the respective patents or patent portfolios.

Acacia's operating subsidiaries may retain the services of law firms that specialize in intellectual property licensing and enforcement and patent law in connection with their licensing and enforcement activities. These law firms may be retained on a contingent fee basis whereby such law firms are paid on a scaled percentage of any negotiated fees, settlements or judgments awarded based on how and when the fees, settlements or judgments are obtained.

The economic terms of the inventor agreements, operating agreements and contingent legal fee arrangements associated with the patent portfolios owned or controlled by Acacia's operating subsidiaries, if any, including royalty rates, contingent fee rates and other terms, vary across the patent portfolios owned or controlled by such operating subsidiaries. Inventor royalties, payments to noncontrolling interests and contingent legal fees expenses fluctuate period to period, based on the amount of revenues recognized each period, the terms and conditions of revenue agreements executed each period and the mix of specific patent portfolios with varying economic terms and obligations generating revenues each period. Inventor royalties, payments to noncontrolling interests and contingent legal fees expenses will continue to fluctuate and may continue to vary significantly period to period, based primarily on these factors.

During the years ended December 31, 2011 and 2010, Acacia entered into significant agreements with unrelated third parties resolving pending patent matters that resulted in the grant of certain intellectual property rights and recognition of revenues, portions of which were not subject to inventor royalty and contingent legal fee arrangements, as well as the grant of licenses from certain of Acacia's operating subsidiaries and recognition of revenues that were subject to inventor royalties and contingent legal fee arrangements. Revenues recognized subject to inventor royalties and contingent legal fees are based on a determination by the respective operating subsidiaries.

### Patent Enforcement and Other Litigation

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. 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,

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ACACIA RESEARCH CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

and if required to be paid by Acacia or its operating subsidiaries, could materially harm the Company's operating results and financial position.

#### Guarantees and Indemnifications

Certain of Acacia's operating subsidiaries have made guarantees and indemnities under which they may be required to make payments to a guaranteed or indemnified party, in relation to certain transactions, including revenue transactions in the ordinary course of business. In connection with certain facility leases, Acacia and certain of its operating subsidiaries have indemnified lessors for certain claims arising from the facilities or the leases. Acacia indemnifies its directors and officers to the maximum extent permitted under the laws of the State of Delaware. However, Acacia has a directors and officers insurance policy that may reduce its exposure in certain circumstances and may enable it to recover a portion of future amounts that may be payable, if any. The duration of the guarantees and indemnities varies and, in many cases is indefinite but subject to statute of limitations. The majority of guarantees and indemnities do not provide any limitations of the maximum potential future payments that Acacia could be obligated to make. To date, Acacia has made no payments related to these guarantees and indemnities. Acacia estimates the fair value of its indemnification obligations to be insignificant based on this history and therefore, have not recorded any liability for these guarantees and indemnities in the accompanying consolidated balance sheets.

#### Other

In August 2010, a wholly owned subsidiary of Acacia became 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 authorized to raise up to \$250 million. The Acacia IP Fund acquires, licenses and enforces intellectual property consisting primarily of patents, patent rights, and patented technologies. The Acacia IP Fund is included in the Company's consolidated financial statements as of and for the year ended December 31, 2010, as Acacia's wholly owned subsidiary, as the general partner, has the ability to control the operations and activities of the Acacia IP Fund. Refer to note 2 to these notes to consolidated financial statements for information regarding the consolidation of majority-owned subsidiaries and the presentation of related noncontrolling interests. At December 31, 2011 and 2010, Acacia IP Fund net assets totaled \$4,442,000 and \$4,706,000, respectively, and primarily related to patent acquisition costs, net of related accumulated amortization.

### 13. RETIREMENT SAVINGS PLAN AND EXECUTIVE SEVERANCE POLICY

**Retirement Savings Plan.** Acacia has an employee savings and retirement plan under section 401(k) of the Code (the "Plan"). The Plan is a defined contribution plan in which eligible employees may elect to have a percentage of their compensation contributed to the Plan, subject to certain guidelines issued by the Internal Revenue Service. Acacia may contribute to the Plan at the discretion of the board of directors. There were no contributions made by Acacia during the periods presented.

**Executive Severance Policy.** Under Acacia's Amended Executive Severance Policy, full-time employees with the title of Senior Vice President and higher ("Officer") are entitled to receive certain benefits upon termination of employment. If employment of an Officer is terminated for other than cause or other than on account of death or disability, Acacia will (i) promptly pay to the Officer a lump sum amount equal to the aggregate of (a) accrued obligations (i.e., the Officer's annual base salary through the date of termination to the extent not theretofore paid and any compensation previously deferred by the Officer (together with any accrued interest or earnings thereon) and any accrued vacation pay, and reimbursable expenses, in each case to the extent not theretofore paid) and (b) three (3) months of the Officer's base salary for each full year that the Officer was employed by the Company (the "Severance Period"), up to

a maximum of twelve (12) months of the Officer's base salary, and (ii) provide to the Officer, Acacia paid COBRA coverage for the medical and dental benefits selected by the Officer in the year in which the termination occurs, for the duration of the Severance Period.

#### 14. SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid for state income taxes totaled \$185,000, \$211,000 and \$169,000 for the years ended December 31, 2011, 2010 and 2009, respectively. Foreign taxes withheld totaled \$7,586,000, \$268,000 and \$3,000 for the years ended December 31, 2011, 2010 and 2009.



Refer to Note 6 to these notes to consolidated financial statements for information regarding noncash investing activity related to the acquisition of patents for the periods presented. Noncash financing activity for the year ended December 31, 2010 included accrued issuance costs associated with the funding of the Acacia IP Fund totaling \$210,000, \$117,000 of which was charged to additional-paid-in-capital and \$93,000 of which was charged to noncontrolling interests in operating subsidiaries.

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ACACIA RESEARCH CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 15. QUARTERLY FINANCIAL DATA (unaudited)

The following table sets forth unaudited consolidated statements of operations data for the eight quarters in the period ended December 31, 2011. This information has been derived from Acacia's unaudited condensed consolidated financial statements that have been prepared on the same basis as the audited consolidated financial statements and, in the opinion of management, include all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of the information when read in conjunction with the audited consolidated financial statements and related notes thereto. Acacia's quarterly results have been, and may in the future be, subject to significant fluctuations. As a result, Acacia believes that results of operations for interim periods should not be relied upon as any indication of the results to be expected in any future periods.

|  | Quarter Ended   |                  |                  |                  |                  |                  |                  |                  |
|--|---|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
|  | Mar. 31,<br>2011  | Jun. 30,<br>2011 | Sep. 30,<br>2011 | Dec. 31,<br>2011 | Mar. 31,<br>2010 | Jun. 30,<br>2010 | Sep. 30,<br>2010 | Dec. 31,<br>2010 |
|  | (Unaudited, In thousands, except share and per share information) |                  |                  |                  |                  |                  |                  |                  |
| Revenues   | \$61,130  | \$39,746         | \$50,585         | \$20,795         | \$39,772         | \$15,006         | \$63,949         | \$13,102         |
| Operating costs and expenses:  |   |                  |                  |                  |                  |                  |                  |                  |
| Cost of revenues:  |   |                  |                  |                  |                  |                  |                  |                  |
| Inventor royalties   | 13,089  | 8,588            | 15,592           | 6,458            | 3,911            | 2,877            | 14,508           | 3,996            |
| Contingent legal fees  | 9,367   | 13,039           | 12,328           | 5,547            | 4,407            | 3,465            | 9,739            | 2,295            |
| Litigation and licensing expenses - patents  | 3,538   | 3,761            | 3,501            | 2,205            | 3,696            | 4,433            | 2,835            | 2,927            |
| Amortization of patents  | 3,772   | 2,600            | 1,946            | 1,427            | 1,703            | 1,876            | 1,963            | 1,389            |
| Verdict insurance proceeds   | —   | —                | (12,451)         | —                | —                | —                | —                | —                |
| Verdict insurance proceeds related costs   | —   | —                | 7,661            | —                | —                | —                | —                | —                |
| Marketing, general and administrative expenses (including non-cash stock compensation expense) | 9,981   | 8,302            | 8,748            | 8,662            | 6,332            | 6,056            | 6,388            | 6,291            |
| Research, consulting and other expenses - business development                                 | 708   | 1,335            | 850              | 1,445            | 372              | 453              | 461              | 835              |
| Total operating costs and expenses   | 40,455  | 37,625           | 38,175           | 25,744           | 20,421           | 19,160           | 35,894           | 17,733           |
| Operating income (loss)  | 20,675  | 2,121            | 12,410           | (4,949)          | 19,351           | (4,154)          | 28,055           | (4,631)          |
| Other income (expense)   | 29  | 24               | 25               | 18               | 19               | 20               | 44               | 52               |
| Income (loss) before provision for income taxes  | 20,704  | 2,145            | 12,435           | (4,931)          | 19,370           | (4,134)          | 28,099           | (4,579)          |
| (Provision) benefit for income taxes   | (7,148)   | (306)            | (1,889)          | 635              | (321)            | 13               | (317)            | (1,115)          |
| Net income (loss) including noncontrolling interests   | 13,556  | 1,839            | 10,546           | (4,296)          | 19,049           | (4,121)          | 27,782           | (5,694)          |
| Net (income) loss attributable to noncontrolling interests                                     | (1,203)   | 300              | 257              | 107              | (537)            | 255              | (3,107)          | 424              |
|  | \$12,353  | \$2,139          | \$10,803         | \$(4,189)        | \$18,512         | \$(3,866)        | \$24,675         | \$(5,270)        |

Net income (loss)  
 attributable to Acacia  
 Research Corporation  
 Net income (loss) per  
 common share attributable  
 to Acacia Research  
 Corporation:

|  |            |            |            |            |            |            |            |            |
|--|------------|------------|------------|------------|------------|------------|------------|------------|
| Basic income (loss) per<br>share                             | \$0.35     | \$ 0.05    | \$ 0.26    | \$(0.10 )  | \$ 0.60    | \$(0.12 )  | \$ 0.75    | \$(0.16 )  |
| Diluted income (loss) per<br>share                           | \$0.34     | \$ 0.05    | \$ 0.25    | \$(0.10 )  | \$ 0.55    | \$(0.12 )  | \$ 0.70    | \$(0.16 )  |
| Weighted-average number<br>of shares outstanding,<br>basic   | 35,182,814 | 40,994,082 | 41,292,819 | 41,418,470 | 30,847,403 | 31,664,869 | 32,794,553 | 33,879,777 |
| Weighted-average number<br>of shares outstanding,<br>diluted | 36,448,005 | 42,453,782 | 42,857,880 | 41,418,470 | 33,411,093 | 31,664,869 | 35,105,354 | 33,879,777 |

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ACACIA RESEARCH CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16. SUBSEQUENT EVENTS

In January 2012, pursuant to the terms and conditions of the Agreement and Plan of Merger dated as of November 22, 2011 among Acacia Research Group LLC ("ARG"), a wholly owned subsidiary of Acacia, Apollo Patent Corp., a newly-formed, wholly owned subsidiary of ARG ("Merger Sub"), ADAPTIX, Inc., a Delaware corporation ("ADAPTIX"), and Baker Communications Fund II (QP), L.P., solely in its capacity as shareholder representative, ARG completed its acquisition of ADAPTIX through the merger of Merger Sub with and into ADAPTIX, with ADAPTIX as the surviving corporation (the "Merger"). Upon completion of the Merger, the separate corporate existence of Merger Sub ceased and ADAPTIX became a wholly owned subsidiary of ARG. On the date of acquisition, ADAPTIX held no material assets other than its portfolio of patents and \$10 million of cash on hand. The consideration paid by ARG in connection with the Merger, totaled approximately \$160,000,000, paid in cash. ADAPTIX's patent portfolio is comprised of approximately 230 issued and pending patents in 13 countries, extending across a broad range of 4G technologies including OFDMA and MIMO.

In February 2012, Acacia raised gross proceeds of \$225,000,000 through the sale of 6.12 million shares of our common stock at a price of \$36.75 per share in a non-registered direct offering with certain institutional accredited investors. Net proceeds, net of placement agent fees and estimated offering expenses totaled \$219,112,000. We intend to use the net proceeds of this private placement to finance pending and future acquisitions of patents and patent royalties and other patent licensing vehicles and companies with patent assets, and for working capital and general corporate purposes.

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ACACIA RESEARCH CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## EXHIBIT INDEX

| Exhibit<br>Number | Description  |
|-------------------|--|
| 2.1               | Agreement and Plan of Merger, dated November 22, 2011, by and among Acacia Research Group LLC, Apollo Patent Corp., Adaptix, Inc., and Baker Communications Fund II (QP), L.P., solely in its capacity as representative for the shareholders of Adaptix, Inc.(16) |
| 3.1               | Amended and Restated Certificate of Incorporation (1)  |
| 3.2               | Amended and Restated Bylaws (10)   |
| 3.2.1             | Amendment to Amended and Restated Bylaws (11)  |
| 10.1*             | Acacia Research Corporation 1996 Stock Option Plan, as amended (2)   |
| 10.2*             | Form of Option Agreement constituting the Acacia Research Corporation 1996 Executive Stock Bonus Plan (3)  |
| 10.3*             | 2002 Acacia Technologies Stock Incentive Plan (4)  |
| 10.4*             | 2007 Acacia Technologies Stock Incentive Plan (5)  |
| 10.5*             | Form of Acacia Technologies Stock Option Agreement for the 2007 Acacia Technologies Stock Incentive Plan (6)   |
| 10.6*             | Form of Acacia Technologies Stock Issuance Agreement for the 2002 Acacia Technologies Stock Incentive Plan (6)   |
| 10.7*             | Form of Acacia Technologies Stock Issuance Agreement for the 2007 Acacia Technologies Stock Incentive Plan (6)   |
| 10.8              | Office Space Lease dated January 28, 2002, between Acacia Research Corporation and The Irvine Company (7)  |
| 10.10             | Form of Indemnification Agreement (8)  |
| 10.11             | Form of Subscription Agreement between Acacia Research Corporation and certain investors (9)   |
| 10.12             | Third Amendment to Lease dated January 28, 2002 between Acacia Research Corporation and the Irvine Company (9)   |
| 10.19*            | Employment Agreement, dated January 28, 2005, by and between Acacia Technologies Services Corporation, and Dooyong Lee, as amended (10)  |
| 10.19.1*          | Amendment to Employment Agreement, dated December 17, 2008, by and between Acacia Technologies, LLC and Dooyong Lee (14)   |
| 10.20*            | Employment Agreement, dated April 12, 2004, by and between Acacia Media Technologies Corporation and Edward Treska (10)  |
| 10.20.1*          | Addendum, dated March 31, 2008, to Employment Agreement by and between Acacia Media Technologies Corporation and Edward Treska (12)  |
| 10.21             | Fourth Amendment to Lease dated January 28, 2002 between Acacia Research Corporation and the Irvine Company (10)   |
| 10.22             | Fifth Amendment to Lease dated January 28, 2002 between Acacia Research Corporation and the Irvine Company (10)  |
| 10.23*            | Employment Agreement, dated March 31, 2008, by and between Acacia Technologies, LLC and Paul Ryan (13)   |
| 10.23.1*          | Amendment to Employment Agreement, dated December 17, 2008, by and between Acacia Technologies, LLC and Paul Ryan (13)   |
| 10.24*            | Employment Agreement, dated March 31, 2008, by and between Acacia Technologies, LLC and Robert L. Harris (12)  |

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- 10.24.1\* Amendment to Employment Agreement, dated December 17, 2008, by and between Acacia Technologies, LLC and Robert L. Harris (13)
- 10.25\* Amended Employment Agreement, dated March 31, 2008, by and between Acacia Technologies, LLC and Clayton J. Haynes (12)
- 10.25.1\* Amendment to Amended Employment Agreement, dated December 17, 2008, by and between Acacia Technologies, LLC and Clayton J. Haynes (13)
- 10.26\* Acacia Research Corporation Amended and Restated Executive Severance Policy (13)
- 10.27 Sixth Amendment to Lease dated January 28, 2002 between Acacia Research Corporation and the Irvine Company (15)
- 10.28 Form of Purchase Agreement (17)

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- 18.1 Preferability Letter dated February 25, 2010 from Grant Thornton LLP, independent registered public accounting firm, regarding change in accounting principle (14)
- 21.1 List of Subsidiaries
- 23.1 Consent of Independent Registered Public Accounting Firm
- 24.1 Power of Attorney (included in the signature page hereto)
- 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.

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\*The referenced exhibit is a management contract, compensatory plan or arrangement required to be filed as an exhibit to this Annual Report on Form 10-K pursuant to Item 15(c) of Form 10-K.

In accordance with Rule 405(a)(2) of Regulation S-T, the registrant will file its first Interactive Data Files that \*\*comply with paragraphs (d)(1) through (d)(4), (e)(1) and (e)(2) of Rule 405 of Regulation S-T as exhibits to an amendment to this Annual Report on Form 10-K to be filed no later than 30 days after the date hereof.

(1) Incorporated by reference to Acacia Research Corporation's Current Report on Form 8-K filed on June 5, 2008 (SEC File No. 000-26068).

(2) Incorporated by reference to Appendix A to Acacia Research Corporation's Definitive Proxy Statement on Schedule 14A filed on April 10, 2000 (SEC File No. 000-26068).

(3) Incorporated by reference to Appendix A to Acacia Research Corporation's Definitive Proxy Statement on Schedule 14A filed on April 26, 1996 (SEC File No. 000-26068).

(4) Incorporated by reference to Annex E to the Proxy Statement/Prospectus which formed part of Acacia Research Corporation's Registration Statement on Form S-4 (SEC File No. 333-87654) which became effective on November 8, 2002.

(5) Incorporated by reference to Acacia Research Corporation's Registration Statement on Form S-8 (SEC File No. 333-144754) which became effective on July 20, 2007.

(6) Incorporated by reference to Acacia Research Corporation's Quarterly Report on Form 10-Q for the period ended September 30, 2007, filed on November 2, 2007 (SEC File No. 000-26068).

(7) Incorporated by reference to Acacia Research Corporation's Annual Report on Form 10-K for the year ended December 31, 2001, filed on March 27, 2002 (SEC File No. 000-26068).

(8) Incorporated by reference to Acacia Research Corporation's Current Report on Form 8-K filed on September 19, 2005 (SEC File No. 000-26068).

(9) Incorporated by reference to Acacia Research Corporation's Quarterly Report on Form 10-Q for the period ended March 31, 2006, filed on May 10, 2006 (SEC File No. 000-26068).

(10) Incorporated by reference to Acacia Research Corporation's Annual Report on Form 10-K for the year ended December 31, 2007, filed on March 14, 2008 (SEC File No. 000-26068).

(11) Incorporated by reference to Acacia Research Corporation's Current Report on Form 8-K filed on January 7, 2008 (SEC File No. 000-26068).

- (12) Incorporated by reference to Acacia Research Corporation's Current Report on Form 8-K filed on April 2, 2008 (SEC File No. 000-26068).
- (13) Incorporated by reference to Acacia Research Corporation's Annual Report on Form 10-K for the year ended December 31, 2008, filed on February 26, 2009 (File No. 000-26068).
- (14) Incorporated by reference to Acacia Research Corporation's Annual Report on Form 10-K for the year ended December 31, 2009, filed on February 25, 2010, as amended on February 26, 2010 (File No. 000-26068)
- (15) Incorporated by reference to Acacia Research Corporation's Annual Report on Form 10-K for the year ended December 31, 2010, filed on February 28, 2011, as amended on March 24, 2011 (File No. 000-26068).
- (16) Incorporated by reference to Acacia Research Corporation's Current Report on Form 8-K/A filed on January 19, 2012 (File No. 000-26068). Portions of this exhibit have been omitted pursuant to a request for confidential treatment under Rule 24-b-2 of the Securities Exchange Act of 1934, as amended. The omitted material has been separately filed with the Securities and Exchange Commission.
- (17) Incorporated by reference to Acacia Research Corporation's Current Report on Form 8-K filed on February 16, 2012 (File No. 000-26068).