ACACIA RESEARCH CORP
Form 10-Q/A
February 29, 2012

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

FORM 10-Q/A
Amendment No. 1

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2011
or
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM TO

Commission File Number: 0-26068

(Exact name of registrant as specified in its charter)

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

500 Newport Center Drive, Newport Beach, California 92660
(Address of principal executive offices)

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

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

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

Large accelerated filer o	Accelerated filer x

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

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

As of October 27, 2011, 42,913,001 shares of the registrant's common stock, $0.001 par value, were issued and outstanding.

EXPLANATORY NOTE

Acacia Research Corporation ("the Company") is filing this Amendment No. 1 ("Amended Form 10-Q") to its Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2011, which was originally filed with the Securities and Exchange Commission ("SEC") on October 28, 2011 (the "Original Form 10-Q"), to restate the Company's unaudited condensed consolidated financial statements for the three and nine month period ended September 30, 2011 and amend related disclosures in the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" of the original Form 10-Q.

The Original Form 10-Q included $182,000 and $7.6 million of tax expense for the three and nine month periods ended September 30, 2011, respectively. During the Company's 2011 year-end close procedures, based on new information, the Company determined that certain net operating loss carry forwards related to the 2000 tax year included in the Company's 2001 tax return (prepared by external advisors) and relied upon in connection with the calculation of tax expense for the three and nine months ended September 30, 2011, were subsequently determined to be currently unsupported. As a result, the Company is filing this Amended Form 10-Q to amend Part 1. "Financial Statements" and Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations," to reflect the following:

- Tax expense for the three and nine months ended September 30, 2011 has been increased by $1.7 million. The change reflects an increase in noncash tax expense for the applicable periods. The offsetting adjustment was credited to additional paid-in capital, not taxes payable, and accordingly does not reflect cash taxes payable.
- Net income attributable to Acacia Research Corporation for the three months ended September 30, 2011 has been reduced by $1.7 million to $10.8 million or $0.25 per share, from $12.5 million or $0.29 per share and;
- Net income attributable to Acacia Research Corporation for the nine months ended September 30, 2011 has been reduced by $1.7 million to $25.3 million, or $0.62 per share, from $27.0 million or $0.66 per share.
- 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.

This Amended Form 10-Q also includes currently-dated certifications from the Company's Chief Executive Officer and Chief Financial Officer, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002. The Company has not modified or updated the disclosures presented in the Original Form 10-Q, except as required to specifically reflect the effects of the restatement in the Amended Form 10-Q. Accordingly, this Amended Form 10-Q does not reflect other events occurring after the Original Form 10-Q, nor does it modify or update any disclosures affected by such subsequent events. Information not affected by the restatement is unchanged and reflects the disclosures made at the time of the Original Form 10-Q.

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PART I--FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

ACACIA RESEARCH CORPORATION
CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share information)
(Unaudited)

	September 30, 2011 (Restated)	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$310,663	$102,515
Short-term investments	6,514	—
Accounts receivable	32,560	7,987
Prepaid expenses and other current assets	927	1,679
Total current assets	350,664	112,181
Property and equipment, net of accumulated depreciation	232	135
Patents, net of accumulated amortization	14,665	19,803
Investments - noncurrent	1,956	2,001
Other assets	467	664
	$367,984	$134,784
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$7,201	$7,099
Royalties and contingent legal fees payable	37,050	12,760
Total current liabilities	44,251	19,859
Other liabilities	608	1,072
Total liabilities	44,859	20,931
Commitments and contingencies (Note 5)		
Stockholders' equity:		
Preferred stock, par value $0.001 per share; 10,000,000 shares authorized; no shares issued or outstanding	—	—
Common stock, par value $0.001 per share; 100,000,000 shares authorized; 42,873,001 and 36,029,068 shares issued and outstanding as of September 30, 2011 and December 31, 2010, respectively	43	36
Additional paid-in capital	384,283	197,026
Accumulated comprehensive loss	(1,913)	—
Accumulated deficit	(60,896)	(86,191)
Total Acacia Research Corporation stockholders' equity	321,517	110,871
Noncontrolling interests in operating subsidiaries	1,608	2,982
Total stockholders' equity	323,125	113,853
	$367,984	$134,784

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011 (Restated)	2010	2011 (Restated)	2010
Revenues	$50,585	$63,949	$151,461	$118,727
Operating costs and expenses:				
Cost of revenues:				
Inventor royalties	15,592	14,508	37,269	21,296
Contingent legal fees	12,328	9,739	34,734	17,611
Litigation and licensing expenses - patents	3,501	2,890	10,800	11,019
Amortization of patents	1,946	1,963	8,318	5,542
Verdict insurance proceeds	(12,451)	—	(12,451)	—
Verdict insurance proceeds related costs	7,661	—	7,661	—
Marketing, general and administrative expenses (including non-cash stock compensation expense of $3,568 and $9,891 for the three and nine months ended September 30, 2011, respectively, and $1,615 and $5,574 for the three and nine months ended September 30, 2010, respectively)	8,748	6,353	27,031	18,741
Research, consulting and other expenses - business development	850	461	2,893	1,286
Total operating costs and expenses	38,175	35,914	116,255	75,495
Operating income	12,410	28,035	35,206	43,232
Interest and investment income	25	44	78	83
Income from operations before provision for income taxes	12,435	28,079	35,284	43,315
Provision for income taxes	(1,889)	(297)	(9,343)	(605)
Net income including noncontrolling interests in operating subsidiaries	10,546	27,782	25,941	42,710
Net (income) loss attributable to noncontrolling interests in operating subsidiaries	257	(3,107)	(646)	(3,389)
Net income attributable to Acacia Research Corporation	$10,803	$24,675	$25,295	$39,321
Net income per common share attributable to Acacia Research Corporation:				
Basic earnings per share	$0.26	$0.75	$0.65	$1.24
Diluted earnings per share	$0.25	$0.70	$0.62	$1.14
Weighted average number of shares outstanding, basic	41,292,819	32,794,553	39,178,952	31,776,074
Weighted average number of shares outstanding, diluted	42,857,880	35,105,353	40,733,813	34,448,666

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

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

	Nine Months Ended September 30, 2011 (Restated)	2010
Cash flows from operating activities:		
Net income including noncontrolling interests in operating subsidiaries	$25,941	$42,710
Adjustments to reconcile net income including noncontrolling interests in operating subsidiaries to net cash provided by operating activities:		
Depreciation and amortization	8,393	5,608
Non-cash stock compensation	9,891	5,574
Gain on investments	(15)	—
Changes in assets and liabilities:		
Accounts receivable	(24,573)	(33,870)
Prepaid expenses and other assets	949	(707)
Accounts payable and accrued expenses	(737)	82
Royalties and contingent legal fees payable	24,290	12,460
Deferred revenues	—	(1,510)
Net cash provided by operating activities	44,139	30,347
Cash flows from investing activities:		
Purchases of property and equipment	(172)	(39)
Purchase of available-for-sale investments	(8,427)	—
Sale of available-for-sale investments	60	—
Patent acquisition costs	(2,805)	(3,074)
Net cash used in investing activities	(11,344)	(3,113)
Cash flows from financing activities:		
Proceeds from sale of common stock, net of issuance costs	175,232	—
Distributions to noncontrolling interests in operating subsidiary	(2,897)	(2,788)
Contributions from noncontrolling interests in operating subsidiary	877	444
Excess tax benefits from stock-based compensation	1,730	—
Proceeds from exercises of stock options	411	6,801
Net cash provided by financing activities	175,353	4,457
Increase in cash and cash equivalents	208,148	31,691
Cash and cash equivalents, beginning	102,515	51,735
Cash and cash equivalents, ending	$310,663	$83,426

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

ACACIA RESEARCH CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Description of Business. As used herein, “Acacia” and the “Company” refer to Acacia Research Corporation and/or its wholly and majority-owned and controlled operating subsidiaries. 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 192 patent portfolios, which include U.S. patents and certain foreign counterparts, covering technologies used in a wide variety of industries.

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 for the periods presented as Acacia's wholly owned subsidiary, as the general partner has the ability to control the operations and activities of the Acacia IP Fund.

Basis of Presentation. The accompanying consolidated financial statements include the accounts of Acacia and its wholly and majority-owned and controlled subsidiaries. Material intercompany transactions and balances have been eliminated in consolidation. Noncontrolling interests in Acacia’s majority-owned and controlled operating subsidiaries ("noncontrolling interests") are separately presented as a component of stockholders’ equity in the consolidated statements of financial position for the applicable periods presented. Consolidated net income or (loss) is adjusted to include the net (income) or loss attributed to noncontrolling interests in the consolidated statements of income. Refer to the accompanying consolidated financial statements for total noncontrolling interests and net income attributable to 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):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net income attributable to noncontrolling interests in operating subsidiary[1]	$—	$(3,107)	$—	$(3,389)
Net (income) loss attributable to noncontrolling interests in operating subsidiary - Acacia IP Fund	257	—	(646)	—
Total net (income) loss attributable to noncontrolling interests in operating subsidiaries	$257	$(3,107)	$(646)	$(3,389)

[1] 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.

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and footnotes required by accounting principles generally accepted in the United States of America in annual financial statements have been omitted or condensed in accordance with quarterly reporting requirements of the Securities and Exchange Commission ("SEC"). These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2010, as reported by Acacia in its Annual Report on Form 10-K. The year-end consolidated balance sheet data was derived from audited financial statements but does not include all disclosures required by accounting principles generally accepted in the United States of America.

The consolidated financial statements of Acacia include all adjustments of a normal recurring nature which, in the opinion of management, are necessary for a fair statement of Acacia's financial position as of September 30, 2011, and results of its operations and its cash flows for the interim periods presented. The results of operations for the three and nine months ended September 30, 2011 are not necessarily indicative of the results to be expected for the entire fiscal year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Restated)

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

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

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 income.

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

Contingent legal fees are expensed in the consolidated statements of income 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.

During the nine months ended September 30, 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, a portion 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.

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Acacia believes that, of the significant accounting policies described herein, the accounting policies associated with revenue recognition, stock-based compensation expense, and impairment of marketable securities, require its most difficult, subjective or complex judgments.

Concentrations. Two licensees individually accounted for 59% and 26% of revenues recognized during the three months ended September 30, 2011, and three licensees individually accounted for 30%, 20% and 16% of revenues recognized during the nine months ended September 30, 2011. Two licensees individually accounted for 62% and 16% of revenues recognized during the three months ended September 30, 2010, and two licensees individually accounted for 33% and 21% of revenues recognized during the nine months ended September 30, 2010. Two licensees individually represented approximately 44% and 41% of accounts receivable at September 30, 2011. One licensee represented approximately 74% of accounts receivable at December 31, 2010.

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. Stock-based compensation expense is recorded only for those awards expected to vest using an estimated forfeiture rate.

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.

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. At September 30, 2011, 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), 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. At September 30, 2011, short term investments were comprised of equity investments in the common stock of certain technology companies, with a cost basis of $8,427,000 and an unrealized loss of $1,913,000.

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 income.

Income Taxes (Restated). 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.

The provision for income taxes for interim periods is determined using an estimate of Acacia's annual effective tax rate, adjusted for discrete items, if any, that are taken into account in the relevant period. Each quarter, Acacia updates the estimate of the annual effective tax rate, and if the estimated tax rate changes, a cumulative adjustment is made. For the nine months ended September 30, 2011, the provision for income taxes related primarily to Korean foreign withholding taxes totaling $7,586,000, withheld by the applicable tax authority pursuant to the requirements of the applicable Income Tax Convention, on payments in connection with certain revenue arrangements executed during the nine months ended September 30, 2011.

The increase for the periods presented also reflects the impact of 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 three and nine months ended September 30, 2011. 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 such instruments recognized for financial reporting purposes, any resulting realized tax benefit that exceeds the previously calculated and recognized compensation expense for such instruments is considered an excess tax benefit, and is recognized as a credit to additional paid-in capital. The deduction related to the exercise and vesting of equity-based incentive awards is available to offset taxable income, if any, on our 2011 and future consolidated tax returns. Accordingly, the noncash tax expense calculated without the benefit related to the exercise and vesting of equity-based incentive awards during the three and nine months ended September 30, 2011, totaling approximately $1.7 million, was credited to additional paid-in capital, not taxes payable, and therefore does not reflect cash taxes payable.

For the three and nine months ended September 30, 2010, the provision for income taxes related primarily to state tax liabilities in jurisdictions where Acacia or certain of Acacia's operating subsidiaries file separate state tax returns.

At December 31, 2010, Acacia had U.S. federal and state income tax net operating loss carryforwards ("NOLs") totaling approximately $85.6 million and $61.5 million, expiring between 2020 and 2030, and 2015 and 2030, respectively. Due to uncertainties surrounding Acacia's ability to generate future taxable income to fully realize these assets, a full valuation allowance has been established to offset its estimated unutilized net deferred tax assets at each balance sheet date. Utilization of NOLs and credit carryforwards can be subject to a substantial annual limitation due to ownership change limitations that may have occurred or that could occur in the future, as required by Section 382 of the Internal Revenue Code of 1986, as amended, as well as similar state provisions.

3. EARNINGS PER SHARE

Earnings Per Share. Basic income per share is computed based upon the weighted-average number of common shares outstanding, excluding unvested restricted stock. Diluted income 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 per share:

ACACIA RESEARCH CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Weighted-average common shares outstanding - basic	41,292,819	32,794,553	39,178,952	31,776,074
Dilutive effect of Equity-based Incentive Awards	1,565,061	2,310,800	1,554,861	2,672,592
Weighted-average common shares outstanding - diluted	42,857,880	35,105,353	40,733,813	34,448,666
Anti-dilutive Equity-based Incentive Awards excluded from the computation of diluted income per share	30,000	64,768	46,560	250,336

4. PATENTS

Acacia's only identifiable intangible assets at September 30, 2011 and December 31, 2010 are patents and patent rights. Patent-related accumulated amortization totaled $34,904,000 and $31,198,000 as of September 30, 2011 and December 31, 2010, respectively.

Acacia's patents and patent rights have remaining estimated economic useful lives ranging from one to seven years. The weighted-average remaining estimated economic useful life of Acacia's patents and patent rights is five years. As of September 30, 2011, scheduled annual aggregate amortization expense is estimated to be $1,163,000 for the remainder of 2011, $3,236,000 in 2012, $3,021,000 in 2013, $2,832,000 in 2014 and $2,420,000 in 2015. For all periods presented, all acquired intangible assets were subject to amortization.

For the nine months ended September 30, 2011 and 2010, Acacia paid patent and patent rights acquisition costs totaling $2,805,000 and $3,074,000, respectively. The patents and patent rights acquired have estimated economic useful lives of approximately one to seven years. Included in net additions to capitalized patent costs during the nine months ended September 30, 2011 are accrued future patent acquisition costs totaling $825,000, which management expects to incur pursuant to the terms of the underlying patent acquisition agreements. Accrued future patent acquisition costs are amortized over the estimated economic useful life of the related patents acquired.

During the nine months ended September 30, 2011 and 2010, certain operating subsidiaries recovered up-front patent portfolio acquisition costs from applicable net licensing proceeds pursuant to the provisions of the underlying inventor agreements, 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. Accelerated amortization expense related to the recovery of up-front patent acquisition costs for the nine months ended September 30, 2011 and 2010 totaled $4,069,000 and $1,267,000, respectively.

During the nine months ended September 30, 2011 and 2010, as provided for in the underlying agreements, certain of Acacia's operating subsidiaries elected to terminate rights to certain patent portfolios, resulting in the acceleration of amortization expense for the patent related assets totaling $101,000 and $338,000, respectively.

5. COMMITMENTS AND CONTINGENCIES

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

ACACIA RESEARCH CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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.

Creative Internet Advertising Corporation ("CIAC"), an operating subsidiary of Acacia, received a $12,451,000 million final judgment stemming from its May 2009 trial verdict and corresponding damages award in its 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 $12,451,000 final judgment covered under the policy (hereinafter 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 $12,451,000 in verdict insurance proceeds. Verdict insurance proceeds related costs include $2,887,000 of inventor royalties, $3,966,000 of contingent legal fees and $808,000 in other costs associated with the verdict insurance policy and related proceeds received.

6. FAIR VALUE MEASUREMENTS AND AUCTION RATE SECURITIES

As of September 30, 2011 and December 31, 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 reflected at estimated fair value.

Due to current liquidity issues in the global credit and capital markets, these securities have continued to experience failed auctions since February 2008. In the event of a failed auction, 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 are estimated utilizing an analysis of certain unobservable inputs and by reference to a discounted cash flow analysis as of September 30, 2011. 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 has classified its auction rate securities as noncurrent assets in the accompanying consolidated balance sheets. Further, as a result of the analysis described above, Acacia recorded an other-than-temporary loss of $296,000 and $263,000 in the consolidated statements of operations for the years ended December 31, 2009 and 2008, respectively. As a result of partial redemptions at par on certain of these auction rate securities subsequent to June 30, 2008, Acacia recorded realized gains totaling $73,000, reflecting a partial recovery of the other-than-temporary loss originally recorded on these securities. As of September 30, 2011 and December 31, 2010, the net other-than-temporary loss on auction rate securities collateralized by student loan portfolios totaled $469,000 and $484,000, respectively.

The following table presents the auction rate securities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the interim periods presented (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Balance as of July 1 and January 1, respectively	$1,975	$2,152	$2,001	$2,152
Total gains (realized or unrealized):				
Recognized gains included in earnings (1)	6	—	15	—
Settlements	(25)	—	(60)	—
Balance as of September 30	$1,956	$2,152	$1,956	$2,152

(1) Total realized gains on redemptions or partial redemptions at par of auction rate securities for the periods presented.

7. 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 $175,232,000, 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. The shares of common stock were offered and sold under a prospectus supplement that was filed with the SEC pursuant to Rule 424(b)(5) of the Securities Act of 1933, as amended, in connection with an offering pursuant to Acacia's automatic shelf registration statement on Form S-3 (Registration No. 333- 173045).

8. RECENT ACCOUNTING PRONOUNCEMENTS

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.

ACACIA RESEARCH CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

9. RESTATEMENT OF FINANCIAL STATEMENTS

The Company restated its previously issued consolidated financial statements as of September 30, 2011 and for the three and nine months then ended, to correct errors in the accounting for intra-period tax expense. Specifically, the Company's third quarter 2011 tax provision calculations reflected the use of certain net operating loss carryforwards related to the 2000 tax year reflected in the Company's 2001 tax return (prepared by external advisors) relied on by the Company in connection with the preparation of the third quarter 2011 tax provision, that based on new information, were subsequently determined to be currently unsupported. Accordingly, the Company increased noncash tax expense by $1.7 million 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.

The following tables summarize the effects of the restatement on the specific items presented in our historical consolidated financial statements previously included in our Quarterly Report on Form 10-Q for the quarter ended September 30, 2011:

	Three Months Ended September 30, 2011		Nine Months Ended September 30, 2011	
	As Previously Reported	As Restated	As Previously Reported	As Restated
Statements of Income Data:				
Provision for income taxes	$(182)	$(1,889)	$(7,636)	$(9,343)
Net income attributable to Acacia Research Corporation	12,510	10,803	27,002	25,295
Net income per common share attributable to Acacia Research Corporation:				
Basic earnings per share	$0.30	$0.26	$0.69	$0.65
Diluted earnings per share	$0.29	$0.25	$0.66	$0.62
Balance Sheets Data:				
Additional paid-in capital			$382,576	$384,283
Accumulated deficit			(59,189)	(60,896)

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.

Item 1A. RISK FACTORS

The following is a summary description of risk factors as to which there may have been a material change from those set forth in our Annual Report on Form 10-K for the year ended December 31, 2010. You should carefully review these risks in evaluating our business, including the businesses of our subsidiaries. You should also consider all other information described in this report.

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 4 of this Amendment No. 1 to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2011, we identified a material weakness as of September 30, 2011, resulting from 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 on new information, were subsequently determined to be currently unsupported. 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 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.

Since the date we identified this material weakness, we enhanced our processes by engaging 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. Given this material weakness, management determined that we did not maintain effective internal control over financial reporting as of September 30, 2011. 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.

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

Cautionary Statement

You should read the following discussion and analysis in conjunction with the consolidated financial statements and related notes thereto contained in Part I, Item 1 of this Quarterly Report on Form 10-Q. The information contained in this Quarterly Report on Form 10-Q is not a complete description of our business or the risks associated with an investment in our common stock. We urge you to carefully review and consider the various disclosures made by us in this report and in our other reports filed with the Securities and Exchange Commission, or the SEC, including our Annual Report on Form 10-K for the year ended December 31, 2010, filed with the SEC on February 28, 2011, as amended on March 24, 2011.

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

Condition and Results of Operations," "Risk Factors" and "Financial Statements and Supplementary Data" included in our Annual Report on Form 10-K for the year ended December 31, 2010.

General

As used in this Quarterly Report on Form 10-Q, "we," "us" and "our" refer to Acacia Research Corporation, a Delaware 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 Research Corporation's wholly and majority-owned and controlled operating subsidiaries.

Our operating subsidiaries acquire, develop, license and otherwise enforce patented technologies. Our 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 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 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 1,050 license agreements executed to date across 108 of our technology licensing programs. Currently, on a consolidated basis, our operating subsidiaries own or control the rights to over 192 patent portfolios, which include U.S. patents, and certain foreign counterparts covering technologies used in a wide variety of industries.

We were originally incorporated in California in January 1993 and reincorporated in Delaware in December 1999.

Executive 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 partner with individual patent owners, small technology companies, research laboratories, universities, and major technology companies seeking to effectively and efficiently monetize their portfolio of patented technologies.

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 us 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.

Operating activities during the periods presented included the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Revenues and other operating income (in thousands)	$63,036	$63,949	$163,912	$118,727
New agreements executed	24	51	88	180

Licensing and enforcement programs generating revenues and other operating income	22	36	49	52
Licensing and enforcement programs with initial revenues	4	12	17	27
New patent portfolios	8	4	25	27
Cumulative number of licensing and enforcement programs generating revenues and other operating income - inception to date	108	87	108	87

Our revenues have historically 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 and other operating income recognized across all of our technology licensing and enforcement programs on a trailing twelve-month basis. Trailing twelve-month revenues, including other operating income, were as follows (in thousands):

As of Date:	Trailing Twelve -Month Revenues and Other Operating Income	% Change	
September 30, 2011	$177,014	(1	)%
June 30, 2011	177,927	16	%
March 31, 2011	153,187	16	%
December 31, 2010	131,829	(5	)%
September 30, 2010	138,585	53	%

Revenues and other operating income for the nine months ended September 30, 2011 included fees or proceeds from or related to, the following technology licensing and enforcement programs:

- Audio Communications Fraud Detection technology
- Camera Support technology
- Catheter Insertion technology(1)
- Computer Architecture and Power Management technology(1)
- Computer Graphics technology
- Database Retrieval technology(1)
- DDR SDRAM technology(1)
- Digital Signal Processing Architecture technology
- Digital Video Enhancement technology
- DMT® technology
- Document Generation technology
- DRAM Memory architecture technology
- Electronic Message Advertising technology
- Facilities Operation Management System technology
- High Performance Computer Architecture technology
- Image Resolution Enhancement technology
- Improved Commercial Print technology
- Improved Lighting technology
- Interactive Mapping technology
- Lighting Ballast technology
- Lighting Control technology(1)
- MEMS technology(1)(2)
- Messaging technology(1)
- Microprocessor Enhancement technology
- Mobile Computer Synchronization technology
- Network Remote Access technology
- NOR Flash technology(1)
- Online Auction Guarantee technology
- Optical Recording technology(1)
- Optical Switching technology
- Pop-up Internet Advertising technology
- Power Management Within Integrated Circuits technology(1)
- Power-over-Ethernet technology(1)(2)
- Rule Based Monitoring technology
- Semiconductor Manufacture technology(1)(2)
- Shape Memory Alloys technology(1)
- Short Messaging in Cellular Telephony technology
- Storage technology
- Targeted Content Delivery technology(1)(2)
- Telematics technology
- User Programmable Engine Control technology(1)
- Video Encoding technology(1)

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- Location Based Services technology
- Location Based Services technology
- Magnetic Storage technology(1)
- Manufacturing Data Transfer technology
- Virtual Server technology
- Visual Data Evaluation technology
- Website Crawling technology

(1) Initial revenues recognized during the nine months ended September 30, 2011.
(2) Initial revenues recognized during the three months ended September 30, 2011.

Revenues for the nine months ended September 30, 2010 included fees from the following technology licensing and enforcement programs:

- Audio Communications Fraud Detection technology
- Authorized Spending Accounts technology
- Automatic Image Labeling technology(1) (2)
- Business Process Modeling (BPM) technology(1)
- Camera Support technology(1) (2)
- Child-friendly Secure Mobile Phones technology
- Compiler technology(1)
- Computer Graphics technology(1) (2)
- Credit Card Fraud Protection technology
- Database Access technology
- Database Management technology
- Digital Signal Processing Architecture technology(1) (2)
- Digital Video Enhancement technology(1)
- Disk Array Systems & Storage Area Network technology(1)
- DMT® technology
- Document Generation technology
- DRAM Memory Architecture technology(1) (2)
- Facilities Operation Management System technology(1)
- File Locking In Shared Storage Networks technology
- High Performance Computer Architecture technology
- Image Resolution Enhancement technology
- Improved Commercial Print technology(1) (2)
- Improved Lighting technology(1)
- Information Portal Software technology(1) (2)
- Interactive Mapping technology(1)
- Internet Radio Advertising technology
- Item Identification technology(1) (2)
- Lighting Ballast technology
- Location Based Services technology
- Medical Image Stabilization technology
- Medical Monitoring technology(1)
- Mobile Computer Synchronization technology(1) (2)
- Mutli-Dimensional Database Compression technology
- Network Monitoring technology(1)
- Network Remote Access technology(1)
- Online Ad Tracking technology(1) (2)
- Online Auction Guarantee technology
- Online Newsletters with Links technology(1)
- Online Promotion technology
- Picture Archiving & Communications System technology
- Pop-up Internet Advertising technology
- Records Management technology(1)
- Rule Based Monitoring technology
- Short Messaging in Cellular Telephony technology(1) (2)
- Software Installation technology(1)
- Storage technology
- Telematics technology
- Virtual Computer Workspace technology
- Virtual Server technology
- Visual Data Evaluation technology(1)
- Website Crawling technology(1)
- Wireless Multimedia technology(1) (2)

(1) Initial revenues recognized during the nine months ended September 30, 2010.
(2) Initial revenues recognized during the three months ended September 30, 2010.

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Summary of Results of Operations - Overview
For the Three and Nine Months Ended September 30, 2011 and 2010

	Three Months Ended September 30, 2011	2010	% Change	Nine Months Ended September 30, 2011	2010	% Change
Revenues	$50,585	$63,949	(21)%	$151,461	$118,727	28%
Verdict insurance proceeds	12,451	—	100%	12,451	—	100%
Total revenues and other operating income	63,036	63,949	(1)%	163,912	118,727	38%
Operating costs and expenses	50,626	35,914	41%	128,706	75,495	70%
Operating income	12,410	28,035	(56)%	35,206	43,232	(19)%
Provision for income taxes	(1,889)	(297)	*	(9,343)	(605)	*
Net income attributable to noncontrolling interests in operating subsidiary**	—	(3,107)	(100)%	—	(3,389)	(100)%
Net income attributable to Acacia Research Corporation	10,803	24,675	(56)%	25,295	39,321	(36)%

* Percentage change in excess of 300%
** Refer to Note 1 to the consolidated financial statements included in this report for additional information.

Overview - Three months ended September 30, 2011 compared with the three months ended September 30, 2010

- Revenues and other operating income decreased $913,000, or 1%, to $63.0 million, as compared to $63.9 million in the prior year period.
- Other operating income includes verdict insurance proceeds totaling $12.5 million received during the three months ended September 30, 2011, as described under "Consolidated Results of Operations" below.
- Cost of Revenues and Other Operating Expenses:

Inventor royalties, net (income) attributable to noncontrolling interests in operating subsidiary, or noncontrolling interests, contingent legal fees, and applicable verdict insurance proceeds related costs, on a combined basis, increased $7.4 million, or 27%, as compared to the 1% decrease in related revenues and other operating income primarily due to no inventor royalty or contingent legal fee arrangement obligations associated with certain of the revenues generated during the three months ended September 30, 2010, as compared to the revenues and other operating income generated during the three months ended September 30, 2011 and, in the aggregate, higher contingent legal fee expenses associated with the patent portfolio programs generating revenues and other operating income during the three months ended September 30, 2011, as compared to the three months ended September 30, 2010.
Verdict insurance proceeds related costs totaled $7.7 million, as described under "Consolidated Results of Operations" below.
Litigation and licensing expenses-patents increased $611,000, or 21%, to $3.5 million, due primarily to higher net levels of litigation support, third-party technical consulting and professional expert expenses associated with our investment in new licensing and enforcement programs commenced since the end of the prior year period.
Marketing, general and administrative expenses increased $2.4 million, or 38%, to $8.7 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 the three months ended September 30, 2011.
Research, consulting and other expenses-business development increased $389,000, or 84%, to $850,000, due primarily to a net increase in third-party research, consulting and other due diligence related costs incurred in

connection with the identification, review, and assessment of patent portfolio acquisition opportunities during the three months ended September 30, 2011.

Provision for income taxes increased $1.6 million to $1.9 million, due to 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 three months ended September 30, 2011.

Overview - Nine months ended September 30, 2011 compared with the nine months ended September 30, 2010

- Revenues and other operating income increased $45.2 million, or 38%, to $163.9 million, 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, during the nine months ended September 30, 2011. Other operating income includes verdict insurance proceeds totaling $12.5 million received during the three months ended September 30, 2011, as described under "Consolidated Results of Operations" below.
- Cost of Revenues and Other Operating Expenses:

Inventor royalties, noncontrolling interests, contingent legal fees, and applicable verdict insurance proceeds related costs, on a combined basis, increased $36.6 million, or 86%, reflecting the increase in related revenues and other operating income for the nine months ended September 30, 2011. In addition, the percentage increase was greater than the percentage increase in related revenues and other operating income primarily due to no inventor royalty or contingent legal fee arrangement obligations associated with certain of the revenues generated during the nine months ended September 30, 2010, and in the aggregate, higher contingent legal fee arrangement obligations associated with the portfolios generating revenues and other operating income during the nine months ended September 30, 2011. Verdict insurance proceeds related costs totaled $7.7 million, as described under "Consolidated Results of Operations" below.

Litigation and licensing expenses-patents decreased $219,000, or 2%, to $10.8 million, due to a lower net level of litigation support, third party technical consulting and professional expert 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 $8.3 million, or 44%, to $27.0 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 the nine months ended September 30, 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 50%, to $8.3 million, due primarily to a net increase in the acceleration of scheduled patent amortization related to recoupable up-front patent portfolio acquisition costs that were recovered from related net licensing proceeds during the nine months ended September 30, 2011, and scheduled amortization on patent related assets acquired subsequent to the end of the prior year period.

The increase in provision for income taxes reflects the impact of Korean foreign withholding taxes withheld by the applicable tax authority pursuant to the requirements of the applicable Income Tax Convention, on payments in connection with certain licensing arrangements executed during the nine months ended September 30, 2011. The increase also reflects the impact of 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 nine months ended September 30, 2011.

Research, consulting and other expenses-business development increased $1.6 million, or 125%, due primarily to a net increase in third-party research, consulting and other due diligence related costs incurred in connection with the identification, review, and assessment of patent portfolio acquisition opportunities during the nine months ended September 30, 2011.

Enforcement Considerations

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;

- 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

We also measure and assess the performance and growth of the patent licensing and enforcement businesses 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 September 30, 2011, December 31, 2010, and September 30, 2010, on a consolidated basis, our operating subsidiaries owned or controlled the rights to approximately 192, 171 and 160 patent portfolios, respectively, which include U.S. patents and certain foreign counterparts, covering technologies used in a wide variety of industries.

During the nine months ended September 30, 2011, certain of our operating subsidiaries continued to execute their business strategy in the area of patent portfolio acquisitions, including the acquisition of, or the acquisition of the rights to, 25 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.

- Additional Patent Portfolios Acquired. We also acquired, or acquired the rights to, additional patent portfolios related to 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.

Refer to “Liquidity and Capital Resources” below for information regarding the impact of patent and patent rights acquisitions on the consolidated financial statements for the periods presented.

As of September 30, 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.

Critical Accounting Estimates

Our unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. Preparation of these consolidated statements requires management to make judgments and estimates. Some accounting policies have a significant impact on amounts reported in these consolidated financial statements. A summary of significant accounting policies and a description of accounting policies that are considered critical may be found in the audited consolidated financial statements and notes thereto and under the caption “Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies” included in our Annual Report on Form 10-K for the year ended December 31, 2010. In addition, refer to Note 2 to the consolidated financial statements included in this report.

Consolidated Results of Operations
Comparison of the Results of Operations for the Three and Nine Months Ended September 30, 2011 and 2010

Revenue and Other Operating Income (In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Revenues	$50,585	$63,949	$151,461	$118,727
Verdict insurance proceeds	12,451	—	12,451	—
	$63,036	$63,949	$163,912	$118,727

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 Acacia Research Corporation, received a $12.5 million final judgment stemming from its May 2009 trial verdict and corresponding damages award in its 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.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
New agreements executed	24	51	88	180
Licensing and enforcement programs with initial revenues	4	12	17	27

Two licensees individually accounted for 59% and 26% of revenues recognized during the three months ended September 30, 2011, and three licensees individually accounted for 30%, 20% and 16% of revenues recognized during the nine months ended September 30, 2011. Two licensees individually accounted for 62% and 16% of revenues recognized during the three months ended September 30, 2010, and two licensees individually accounted for 33% and 21% of revenues recognized during the nine months ended September 30, 2010.

On a consolidated basis, as of September 30, 2011, 108 of our licensing programs had begun generating revenues and other operating income, up from 91 as of December 31, 2010, and 87 as of September 30, 2010.

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;

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

The increase in revenues and other operating income for the three and nine months ended September 30, 2011 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.

Cost of Revenues and Other Operating Income (In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Cost of revenues and other operating income:				
Inventor royalties**	$18,479	$14,508	$40,156	$21,296
Contingent legal fees**	16,294	9,739	38,700	17,611
Other verdict insurance related costs	808	—	808	—
Net income attributable to noncontrolling interests in operating subsidiary*	—	(3,107)	—	(3,389)

* Refer to Note 1 to the 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, Noncontrolling Interests and Contingent Legal Fees Expense. 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 and other operating income 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 and other operating income 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.

	Three Months Ended September 30, 2011 vs. 2010		Nine Months Ended September 30, 2011 vs. 2010	
Increase (decrease) in revenues and other operating income	(1)%		38%	
Increase in inventor royalties and noncontrolling interests(c)	5%	(a)	63%	(a)

Increase in contingent legal fees expense[(c)]	67	% (b)	120	% (b)
Increase in inventor royalties expense, noncontrolling interests, contingent legal fees expense[(c)]	27	% (a), (b)	86	% (a), (b)

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As a Percentage of Revenue:	Three Months Ended September 30, 2011		2010		Nine Months Ended September 30, 2011		2010	
Inventor royalties and noncontrolling interests[c]	29	%	28	% (a)	24	%	21	% (a)
Contingent legal fees expense[c]	26	%	15	% (b)	24	%	15	% (b)
Inventor royalties, noncontrolling interests, contingent legal fees[c]	55	%	43	% (a),(b)	48	%	36	% (a),(b)

(a) The percentage increase in inventor royalties and noncontrolling interests was greater than the percentage increase in revenues and other operating income for the periods presented, primarily due to a portion of revenues recognized during the three and nine months ended September 30, 2010 having no corresponding inventor royalty arrangement obligations.

(b) The percentage increase in contingent legal fees expense was greater than the percentage increase in revenues and other operating income for the periods presented primarily due to a portion of revenues recognized during the three and nine months ended September 30, 2010 having no corresponding contingent legal fee arrangement obligations, and in addition, in the aggregate, higher contingent legal fee arrangement obligations associated with the portfolios generating revenues and other operating income during the three and nine months ended September 30, 2011, as compared to the three and nine months ended September 30, 2010.

(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 the nine months ended September 30, 2011 and 2010 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.

	Three Months Ended September 30, 2011	2010	Nine Months Ended September 30, 2011	2010
Litigation and licensing expenses - patents	$3,501	$2,890	$10,800	$11,019
Amortization of patents	1,946	1,963	8,318	5,542

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 includes 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 increased for the three month periods presented due primarily to higher net levels of litigation support, third-party technical consulting and professional expert expenses associated with our investment in new licensing and enforcement programs commenced since the end of the 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 and/or anticipated trial dates and our current and future patent acquisition, development, licensing and enforcement activities.

Amortization of Patents. The increase for the nine month period presented was due primarily to a net increase in accelerated patent amortization related to recoupable up-front patent portfolio acquisition costs that were recovered from related net licensing proceeds during the nine months ended September 30, 2011 and a net increase in scheduled patent amortization expense related to patent portfolios acquired since the end of the prior year period. For the nine months ended

September 30, 2011 and 2010, accelerated amortization expense related to the recovery of up-front patent acquisition costs totaled $4.1 million and $1.3 million, respectively.

Operating Expenses (In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Marketing, general and administrative expenses (including non-cash stock compensation expense of $3,568 and $9,891 for the three and nine months ended September 30, 2011, respectively, and $1,615 and $5,574 for the three and nine months ended September 30, 2010, respectively)	$8,748	$6,353	$27,031	$18,741

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):

	Three Months Ended September 30, 2011 vs. 2010	Nine Months Ended September 30, 2011 vs. 2010
Addition of business development, engineering and other personnel costs	$573	$1,597
Increase in annual variable performance-based compensation and other variable performance-based compensation costs	—	1,774
Corporate, general and administrative costs	(131)	602
Non-cash stock compensation expense	1,953	4,317

Income Taxes (in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Provision for income taxes	$1,889	$297	$9,343	$605
Effective tax rate	15 %	1 %	26 %	1 %

Provision for Income Taxes. The increase in our effective tax rate for the nine month periods presented reflects the impact of Korean foreign withholding taxes totaling $7.6 million, which were withheld by the applicable tax authority pursuant to the requirements of the applicable Income Tax Convention, on payments in connection with certain licensing arrangements executed during the nine months ended September 30, 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 the nine months ended September 30, 2011.

The increase for the periods presented also reflects the impact of 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 three and nine months ended September 30, 2011. 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 deduction related to the exercise and vesting of equity-based incentive awards is available to offset taxable income, if any, on our 2011 or future consolidated tax returns. Accordingly, the noncash tax expense calculated without the benefit related to the exercise and vesting of equity-based incentive awards during the three and nine months ended September 30, 2011, totaling approximately $1.7 million, was credited to additional paid-in capital, not taxes payable, and therefore does not reflect cash taxes payable.

Liquidity and Capital Resources

General

Our primary sources of liquidity are cash and cash equivalents and investments generated from our operating activities. 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 the cash and cash equivalent balances, investments, anticipated cash flow from operations, and other external sources of available credit, will be sufficient to meet our cash requirements through at least October 2012 and for the foreseeable future. We may, however, encounter unforeseen difficulties that may deplete our capital resources more rapidly than anticipated, including those set forth under the caption “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2010. Any efforts to seek additional funding could be made through issuances of equity or debt, or other external financing. However, additional funding may not be available on favorable terms, or at all. The capital and credit markets have experienced extreme volatility and disruption since late 2007, and the volatility and impact of the disruption has continued into 2011. 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.

In August 2010, a wholly owned subsidiary of our company became the general partner of the Acacia Intellectual Property Fund, L.P., or 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.

Cash and Investments

Our consolidated cash and cash equivalents and investments totaled $319.1 million at September 30, 2011, compared to $104.5 million at December 31, 2010. The net change in cash and cash equivalents for the periods presented was comprised of the following (in thousands):

	Nine Months Ended September 30,	
	2011	2010
Net cash provided by (used in):		
Operating activities	$44,139	$30,347
Investing activities	(11,344)	(3,113)
Financing activities	175,353	4,457

Cash Flows from Operating Activities. Cash receipts from licensees for the nine months ended September 30, 2011 increased to $139.5 million, from $83.4 million in the comparable 2010 period, primarily reflecting the net increase in revenues and other operating income for the same periods, as discussed above. Cash outflows from operations for the nine months ended September 30, 2011 increased to $93.6 million, as compared to $53.1 million in the comparable 2010 period, due to the net increase in cost of revenues and other operating expenses, as discussed above, and the impact of the timing of payments to inventors, attorneys and other vendors.

Cash Flows from Investing Activities. Net cash used in investing activities for the nine months ended September 30, 2011 included patent-related acquisition costs totaling $2.8 million, as compared to $3.1 million in the comparable 2010 period. Purchases of short term investments totaled $8.4 million for the nine months ended September 30, 2011.

Cash Flows from Financing Activities. Net cash provided by financing activities during the nine months ended September 30, 2011 included net proceeds from the sale of common stock totaling $175.2 million, proceeds from exercises of stock options totaling $411,000, $877,000 in capital contributions from non-controlling interests, $1.7 million in excess tax benefits related to stock-based compensation and distributions to non-controlling interests totaling $2.9 million. Net cash provided by financing activities during the nine months ended September 30, 2010 included proceeds from exercises of stock options totaling $6.8 million, $444,000 in capital contributions from non-controlling interests, and distributions to non-controlling interests totaling $2.8 million.

Working Capital

Working capital at September 30, 2011 increased to $306.4 million, compared to $92.3 at December 31, 2010. Consolidated accounts receivable from licensees increased to $32.6 million at September 30, 2011, compared to $8.0 million at December 31, 2010. Consolidated royalties and contingent legal fees payable increased to $37.1 million at September 30, 2011, compared to $12.8 million at December 31, 2010.

The majority of accounts receivable from licensees at September 30, 2011 were collected or scheduled to be collected in the fourth quarter of 2011, in accordance with the terms of the related underlying agreements. The majority of royalties and contingent legal fees payable are scheduled to be paid in the fourth quarter of 2011 or first quarter of 2012, subsequent to receipt by us of the related fee payments from licensees, in accordance with the underlying contractual arrangements.

Off-Balance Sheet Arrangements

We have not entered into off-balance sheet financing arrangements, other than operating leases. We have no significant commitments for capital expenditures in 2011. We have no committed lines of credit or other committed funding or long-term debt. The following table lists our known contractual obligations and future cash commitments as of September 30, 2011:

	Payments Due by Period (In thousands)				
Contractual Obligations	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Operating leases	$3,391	$120	$1,497	$1,408	$366
Scheduled patent acquisition related payments	1,325	825	250	250	—
Payments to consultants	300	150	150	—	—
Total contractual obligations	$5,016	$1,095	$1,897	$1,658	$366

As of September 30, 2011, the liability for uncertain tax positions, associated primarily with state income taxes, was $86,000, 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 our consolidated balance sheets included in this report.

Recent Accounting Pronouncements

Refer to Note 8 to the consolidated financial statements included in this report.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The primary objective of our investment activities is to preserve principal while concurrently maximizing the income we receive from our investments without significantly increasing risk. 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. 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.

As of September 30, 2011, our investments were comprised of money market funds (included in cash and cash equivalents in the accompanying consolidated balance sheets), auction rate securities (included in noncurrent investments in the accompanying consolidated balance sheets) and strategic investments in marketable equity securities (included in short term investments in the accompanying consolidated balance sheet as of September 30, 2011). In general, money market funds are not subject to interest rate risk or market risk. 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 13%. Refer to "Liquidity and Capital Resources" and Note 6 to the consolidated financial statements included in this report for additional information.

Item 4. CONTROLS AND PROCEDURES

Evaluation of 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, September 30, 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 have determined that our disclosure controls and procedures were not effective as of September 30, 2011.

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 financial statements have been filed for the applicable periods with this Report. 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.

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 detail 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 related 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.

PART II--OTHER INFORMATION

Item 6. EXHIBITS

EXHIBIT NUMBER	EXHIBIT
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.*

*Furnished herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ACACIA RESEARCH CORPORATION

By: /s/ Paul R. Ryan
Paul R. Ryan
Chief Executive Officer

By: /s/ Clayton J. Haynes
Clayton J. Haynes
Chief Financial Officer and Treasurer

Date: February 29, 2012

EXHIBIT INDEX

EXHIBIT NUMBER	EXHIBIT
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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.*

*Furnished herewith