ACACIA RESEARCH CORP
Form 10-K
February 28, 2013

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

FORM 10-K

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

OR

o TRANSACTION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM TO .

Commission File Number 0-26068

(Exact name of registrant as specified in its charter)

DELAWARE (State or other jurisdiction of incorporation organization)	95-4405754 (I.R.S. Employer Identification No.)
500 NEWPORT CENTER DRIVE, NEWPORT BEACH, CA (Address of principal executive offices)	92660 (Zip Code)

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

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

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

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

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

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

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

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

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

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

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

The aggregate market value of the registrant's voting and non-voting common stock held by non-affiliates of the registrant on June 30, 2012, the last business day of the registrant's most recently completed second fiscal quarter, computed by reference to the last sale price of the registrant's common stock as reported by The Nasdaq Global Select Market on such date, was approximately $1,808,241,000. This computation assumes that all executive officers, directors and persons known to the registrant to be the beneficial owners of more than ten percent of the registrant's common stock are affiliates of the registrant. Such assumption should not be deemed conclusive for any other purpose.

As of February 25, 2013, 49,205,557 shares of common stock were issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

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

ACACIA RESEARCH CORPORATION
ANNUAL REPORT ON FORM 10-K
FISCAL YEAR ENDED DECEMBER 31, 2012
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PART I

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

ITEM 1. BUSINESS

General

Our operating subsidiaries acquire, develop, license and enforce patented technologies. Our operating subsidiaries generate revenues and related cash flows from the granting of intellectual property rights for the use of patented technologies that our operating subsidiaries own or control. Our operating subsidiaries assist patent owners with the prosecution and development of their patent portfolios, the protection of their patented inventions from unauthorized use, the generation of licensing revenue from users of their patented technologies and, if necessary, with the enforcement against unauthorized users of their patented technologies.

We are a leader in licensing patented technologies and have established a proven track record of licensing success with over 1,225 license agreements executed to date, across 143 of our technology licensing programs. Currently, on a consolidated basis, our operating subsidiaries own or control the rights to over 250 patent portfolios, which include U.S. patents and certain foreign counterparts covering technologies used in a wide variety of industries.

Other

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

- our corporate code of conduct, our code of conduct for our board of directors and our fraud policy; and
- charters for our audit committee, nominating and corporate governance committee, disclosure committee and compensation committee.

The public may read and copy any materials that we file with the SEC at the SEC’s Public Reference Room at 100 F

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Street, NE, Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

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

Intellectual Property Licensing Business

Our operating subsidiaries acquire, develop, license and enforce patented technologies. Our operating subsidiaries generate revenues and related cash flows from the granting of intellectual property rights for the use of patented technologies that our operating subsidiaries own or control. Our operating subsidiaries assist patent owners with the prosecution and development of their patent portfolios, the protection of their patented inventions from unauthorized use, the generation of licensing revenue from users of their patented technologies and, if necessary, with the enforcement against unauthorized users of their patented technologies. Currently, on a consolidated basis, our operating subsidiaries own or control the rights to over 250 patent portfolios, which include U.S. patents and certain foreign counterparts, covering technologies used in a wide variety of industries. Refer to the section entitled “Patented Technologies” below for a partial summary of patent portfolios owned or controlled by certain of our operating subsidiaries.

We are a leader in patent licensing and our operating subsidiaries have established a proven track record of licensing success with more than 1,225 license agreements executed to date. To date, on a consolidated basis, we have generated revenues from 143 of our technology licensing and enforcement programs. Our professional staff includes in-house patent attorneys, licensing executives, engineers and business development executives.

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

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

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

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

Business Model and Strategy - Overview

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

Key Elements of Business Strategy

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

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

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

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

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

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

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

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

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

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

- Utilizing our staff of in-house intellectual property business development executives, patent attorneys, intellectual property licensing executives, and technology engineers to conduct our tailored patent acquisition and evaluation processes and procedures. We may also leverage the expertise of external specialists and technology consultants.
- Identifying emerging growth areas where patented technologies will play a vital role in connection with the manufacture or sale of products and services.
- Identifying core, patented technologies that have been or are anticipated to be widely adopted by third parties in connection with the manufacture or sale of products and services.
- Considering the impact of subtleties in the language of a patent, recorded interactions with the patent office, evaluating prior art and literature and considering the impact on the potential licensing and enforcement revenue that can be derived from a patent or patent portfolio.
- Evaluating the strength of a patent portfolio, including consideration of the types of claims and the number of claims potentially infringed by third parties, before the decision is made to allocate resources to an acquisition or an effective licensing and enforcement effort.
- Identifying and considering potential problem areas, if any, and determining whether potential problem areas can be overcome prior to acquiring a patent portfolio or launching an effective licensing program.
- Identifying potential infringers, industries within which the potential infringers exist, longevity of the patented technology, and a variety of other factors that directly impact the magnitude and potential success of a licensing and enforcement program.

- Purchase or Acquire the Rights to Patented Technologies

After evaluation, our operating subsidiaries may elect to purchase the patented technology, or acquire the exclusive right to license the patented technology in all or in specific fields of use. The original owner of the patent or patent rights will typically receive an upfront acquisition payment, or retain the right to a portion of the net revenues generated from a patent portfolio's licensing and enforcement program, or a combination of the two. Our operating subsidiaries generally control the licensing and enforcement process and utilize experienced in-house personnel to reduce outside costs and to ensure that the necessary capital and expertise is allocated and deployed in an efficient and cost effective manner.

- Successfully License and Enforce Patents with Significant Royalty Potential

As part of the patent evaluation process employed by our operating subsidiaries, significant consideration is also given to the identification of potential infringers, industries within which the potential infringers exist, longevity of the patented technology, and a variety of other factors that directly impact the magnitude and potential success of a licensing and enforcement program. Our specialists are trained in evaluating potentially infringing technologies and in presenting the claims of our patents and demonstrating how they apply to companies we believe are using our technologies in their products or services. These presentations can take place in a non-adversarial business setting, but can also occur through the litigation process, if necessary. Ultimately, we execute patent licensing arrangements with users of our patented technologies through licensing negotiations without the filing of patent infringement litigation, or through the negotiation of license and settlement arrangements in connection with the filing of patent infringement litigation.

Patented Technologies

Currently, on a consolidated basis, our operating subsidiaries own or control the rights to over 250 patent portfolios, with future patent expiration dates ranging from 2013 to approximately 2028, and covering technologies used in a wide variety of industries, a sample of which includes the following:

Advertising	Digital Media	Semiconductor/MEMS
Electronic Message Advertising	DMT®	Aligned Wafer Bonding
Internet Radio Advertising	Integrated Access	Chip-Stacking
Interstitial Internet Advertising	Interactive Content in a Cable Distribution System	Computer Architecture and Power Management
Online Ad Tracking	Television Data Display	Computer Memory Cache Coherency
Pop-up Internet Advertising	Television Signal Scrambling	Digital Signal Processing Architecture
	Video Encoding	Dynamic Manufacturing Modeling
Automotive		Dynamic Random Access Memory
Improved Anti-Trap Safety Technology for Vehicles	Energy/Lighting	Enhanced DRAM Architecture
Improved Lighting	Fluid Flow Control and Monitoring Technology	Flash Memory
User Programmable Engine Control	Lighting Ballast	High Performance Computer Architecture
Vehicle Anti-Theft Parking Systems	Lighting Control	Improved Memory Manufacturing
Vehicle Maintenance		MEMS
Vehicle Occupant Sensing	Internet/Ecommerce/Business Methods	Microprocessor Enhancement
	Authorized Spending Accounts	Microprocessor Memory Management
Communications	Automated Communications	Power Management Within Integrated Circuits
Audio Communications Fraud Detection	Automated Notification of Tax Return Status	
Broadcast Data Retrieval	Automated Tax Reporting	Software
Messaging	Consumer Rewards	Automatic Image Labeling
Optical Switching	Digital Newspaper Delivery	Business Process Modeling (BPM)
Peer to Peer Communications	Distributed Data Management and Synchronization	Compiler
Virtual Server	Document Retrieval Using Global Word Co-Occurrence Patterns	Computer Simulations
	Electronic Securities Trading	Document Generation
Computers/Peripherals/Printers	Energy Trading	Facilities Operation Management System
Camera Support	Enhanced Internet Navigation	File Systems and Development Environments
Color Correction for Video Graphics Systems	Greeting Card	Gemstone Grading

Computer Storage Restoration	Information Portal Software	Manufacturing Data Transfer
Disk Array Systems	Item Identification	Network Monitoring
Embedded Broadcast Data	Online Auction Guarantees	Product Activation
High Quality Image Processing	Online Promotion	Resource Scheduling
High Resolution Optics	Portable Credit Card Processing	Software Activation
Improved Commercial Print	Portable Storage Devices with Links	Software Installation
	Videoconferencing	Software License Management

Improved Printing	Website Crawling	Spreadsheet Automation
Laptop Connectivity		Targeted Content Delivery
Line Screen Printing	Mechanical	Text Auto-Completion
Network Remote Access	Impact Instrument	Virtual Computer Workspaces
Parallel Processing with Shared Memory		
Pointing Device	Medical	Wireless
Remote Management of Imaging Devices	Biosensor	Child-Friendly Secure Mobile Phones
	Catheter Insertion	GPS
Consumer Electronics	Hearing Aid ECS	Location Based Services
Audio Storage and Retrieval System	Heated Surgical Blades	Mobile Computer Synchronization
Compact Disk	Intraluminal Device	Mobile Computing
Computer Graphics	Laparoscopic Surgery	Radio Communication with Graphics
Continuous TV Viewer Measuring	Medical Image Manipulation	Telematics
Digital Video Enhancement	Medical Image Stabilization	Wireless Data
Digital Video Production	Medical Monitoring	Wireless Digital Messaging
Image Resolution Enhancement	Picture Archiving & Communication Systems	Wireless LAN
Micromirror Digital Display	Purifying Nucleic Acids	Wireless Multimedia
Optical Recording	Shape Memory Alloys	
Projector	Surgical Catheter	
Workspace with Moving Viewpoint	Wireless Monitoring	
Database	Security	
Database Access	Copy Protection	
Database Management	Credit Card Fraud Protection	
Database Retrieval	Encrypted Media & Playback Devices	
Electronic Address List Management	Enterprise Content Management	
File Locking in Shared Storage Networks	Physical Access Control	
Information Storage, Searching and Retrieval		
Multi-Dimensional Database Compression		
Records Management		
Relational Database Access		
Rule Based Monitoring		
Storage Area Network		
Storage Technology		

Revenues for the periods presented include revenues generated from several of the portfolios summarized above and other technology patent portfolios owned or controlled by us. Refer to Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations- Overview" for a summary of patent portfolios generating revenues for the applicable periods presented.

Patent Enforcement Litigation

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

Competition

We expect to encounter increased competition in the area of patent acquisitions and enforcement. This includes an increase in the number of competitors seeking to acquire the same or similar patents and technologies that we may seek to acquire. Entities including Intellectual Ventures, Wi-LAN, MOSAID, Round Rock Research LLC, IPvalue Management Inc., Vringo Inc. and Pendrell Corporation compete in acquiring rights to patents, and we expect more entities to enter the market.

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

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

Employees

As of December 31, 2012, on a consolidated basis, we had 55 full-time employees. Neither we nor any of our subsidiaries are a party to any collective bargaining agreement. We consider our employee relations to be good.

ITEM 1A. RISK FACTORS

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

Risks Related to Our Business

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

Despite reporting net income of $59.5 million, $21.1 million and $34.1 million for the years ended December 31, 2012, 2011 and 2010, respectively, on a cumulative basis, we have sustained substantial losses since our inception. As of December 31, 2012, our accumulated deficit was $5.6 million. As of December 31, 2012, we had approximately $311.3 million in cash, cash equivalents and investments on hand, and working capital of $302.6 million. We expect to continue incurring significant legal, marketing and general and administrative expenses in connection with our operations. As a result, we anticipate that we may incur losses in the future. However, we believe our current cash, cash equivalents and investments will be sufficient to finance our anticipated capital and operating requirements for at least the next twelve months.

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

Our consolidated cash, cash equivalents and investments on hand totaled $311.3 million and $323.3 million at December 31, 2012 and 2011, respectively. To date, we have relied primarily upon net cash flows from our operations and from the public and private sale of equity securities to generate the working capital needed to finance our operations.

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

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

Our growth has placed, and is expected to continue to place, a strain on our managerial, operational and financial resources and systems. Further, as our subsidiary companies' businesses grow, we will be required to continue to manage multiple relationships. Any further growth by us or our subsidiary companies, or an increase in the number of our strategic relationships, may place additional strain on our managerial, operational and financial resources and systems. Although we may not grow as we expect, if we fail to manage our growth effectively or to develop and expand our managerial, operational and financial resources and systems, our business and financial results will be materially harmed.

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

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

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

Our future growth depends, in part, on our ability to acquire patented technologies, patent portfolios, or companies holding such patented technologies and patent portfolios. Accordingly, we have engaged in acquisitions to expand our patent portfolios and we intend to continue to explore such acquisitions. Such acquisitions are subject to numerous risks, including the following:

- our inability to enter into a definitive agreement with respect to any potential acquisition, or if we are able to enter into such agreement, our inability to consummate the potential acquisition;
- difficulty integrating the operations, technology and personnel of the acquired entity;
- our inability to achieve the anticipated financial and other benefits of the specific acquisition;
- our inability to retain key personnel from the acquired company, if necessary;
- difficulty in maintaining controls, procedures and policies during the transition and integration process;
- diversion of our management's attention from other business concerns; and
- failure of our due diligence process to identify significant issues, including issues with respect to patented technologies and patent portfolios, and other legal and financial contingencies.

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

From January 2005 to the present, our operating subsidiaries have executed our business strategy of acquiring patent portfolios and accompanying patent rights. Currently, on a consolidated basis, our operating subsidiaries own or control the rights to over 250 patent portfolios, which include U.S. patents and certain foreign counterparts, covering technologies used in a wide variety of industries. These acquisitions continue to expand and diversify our revenue generating opportunities. We believe that our cash, cash equivalents and investment balances, anticipated cash flow from operations, proceeds from our 2012 private placement offering of our common stock (refer to "Liquidity and Capital Resources" below) and other external sources of available credit, will be sufficient to meet our cash requirements through at least March 2014 and for the foreseeable future. However, due to the nature of our licensing business and uncertainties regarding the amount and timing of the receipt of license and other fees from potential infringers, stemming primarily from uncertainties regarding the outcome of enforcement actions, rates of adoption of our patented technologies, the growth rates of our existing licensees and certain other factors, our revenues may vary significantly from quarter to quarter, which could make our business difficult to manage, adversely affect our business and operating results, cause our quarterly results to fall below market expectations and adversely affect the market price of our common stock.

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

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

Our current or future relationships may not provide the volume or quality of technologies necessary to sustain our business. In some cases, universities and other technology sources may compete against us as they seek to develop and commercialize technologies. Universities may receive financing for basic research in exchange for the exclusive right to commercialize resulting inventions. These and other strategies may reduce the number of technology sources and potential clients to whom we can market our services. If we are unable to maintain current relationships and sources of technology or to secure new relationships and sources of technology, such inability may have a material adverse effect on our operating results and financial condition.

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

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

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

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

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

In connection with any of our patent enforcement actions, it is possible that a defendant may request and/or a court may rule that we have violated statutory authority, regulatory authority, federal rules, local court rules, or governing standards relating to the substantive or procedural aspects of such enforcement actions. In such event, a court may issue monetary sanctions against us or our operating subsidiaries or award attorney's fees and/or expenses to a defendant(s), which could be material, and if we or our operating subsidiaries are required to pay such monetary sanctions, attorneys' fees and/or expenses, such payment could materially harm our operating results and our financial position.

Risks Related to Our Industry

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

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

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

Our operating subsidiaries acquire patents with enforcement opportunities and are spending a significant amount of resources to enforce those patents. If new legislation, regulations or rules are implemented either by Congress, the U.S. Patent and Trademark Office, or USPTO, or the courts that impact the patent application process, the patent enforcement process or the rights of patent holders, these changes could negatively affect our expenses and revenue. Recently, United States patent laws were amended with the enactment of the Leahy-Smith America Invents Act, or the America Invents Act, which will take effect on March 16, 2013. The America Invents Act includes a number of significant changes to U.S. patent law. In general, the legislation attempts to address issues surrounding the enforceability of patents and the increase in patent litigation by, among other things, establishing new procedures for patent litigation. For example, the America Invents Act changes the way that parties may be joined in patent infringement actions, increasing the likelihood that such actions will need to be brought against individual parties allegedly infringing by their respective individual actions or activities. At this time, it is not clear what, if any, impact the America Invents Act will have on the operation of our enforcement business. However, the America Invents Act and its implementation could increase the uncertainties and costs surrounding the enforcement of our patented technologies, which could have a material adverse effect on our business and financial condition.

In addition, the U.S. Department of Justice ("DOJ") has conducted reviews of the patent system to evaluate the impact of patent assertion entities on industries in which those patents relate. It is possible that the findings and recommendations of the DOJ could impact the ability to effectively license and enforce standards-essential patents and could increase the uncertainties and costs surrounding the enforcement of any such patented technologies.

Finally, new rules regarding the burden of proof in patent enforcement actions could significantly increase the cost of our enforcement actions, and new standards or limitations on liability for patent infringement could negatively impact our revenue derived from such enforcement actions.

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

It is difficult to predict the outcome of patent enforcement litigation at the trial level. It is often difficult for juries and trial judges to understand complex, patented technologies, and as a result, there is a higher rate of successful appeals in patent enforcement litigation than more standard business litigation. Such appeals are expensive and time consuming, resulting in increased costs and delayed revenue. Although we diligently pursue enforcement litigation, we cannot predict with significant reliability the decisions made by juries and trial courts.

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

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

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

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

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

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

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

We expect to encounter competition in the area of patent acquisition and enforcement as the number of companies entering this market is increasing. This includes competitors seeking to acquire the same or similar patents and technologies that we may seek to acquire. Entities including Intellectual Ventures, Wi-LAN, MOSAID, Round Rock Research LLC, IPvalue Management Inc., Vringo Inc. and Pendrell Corporation compete in acquiring rights to patents, and we expect more entities to enter the market. As new technological advances occur, many of our patented technologies may become obsolete before they are completely monetized. If we are unable to replace obsolete technologies with more technologically advanced patented technologies, then this obsolescence could have a negative effect on our ability to generate future revenues.

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

Our patented technologies face uncertain market value.

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

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

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

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

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

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

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

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

Risks Related to Our Common Stock

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- merge or consolidate with another corporation;
- liquidate or partially liquidate;
- sell or transfer all or substantially all of its assets;
- redeem or repurchase its stock (except in certain limited circumstances); or
- take any other action which could reasonably be expected to cause Section 355(e) to apply to the distribution.

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

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

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

- the dollar amount of agreements executed in each period, which is primarily driven by the nature and characteristics of the technology being licensed and the magnitude of infringement associated with a specific licensee;
- the specific terms and conditions of agreements executed in each period and the periods of infringement contemplated by the respective payments;
- fluctuations in the total number of agreements executed;
- fluctuations in the sales results or other royalty-per-unit activities of our licensees that impact the calculation of license fees due;
- the timing of the receipt of periodic license fee payments and/or reports from licensees;

- fluctuations in the net number of active licensees period to period;
- costs related to acquisitions, alliances, licenses and other efforts to expand our operations;
- the timing of payments under the terms of any customer or license agreements into which our operating subsidiaries may enter; and
- expenses related to, and the timing and results of, patent filings and other enforcement proceedings relating to intellectual property rights, as more fully described in this section.

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

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

- announcements of developments in our patent enforcement actions;
- developments or disputes concerning our patents;
- our or our competitors' technological innovations;
- developments in relationships with licensees;
- variations in our quarterly operating results;
- our failure to meet or exceed securities analysts' expectations of our financial results;
- a change in financial estimates or securities analysts' recommendations;
- changes in management's or securities analysts' estimates of our financial performance;
- changes in market valuations of similar companies;
- the current sovereign debt crises affecting several countries in the European Union and concerns about sovereign debt of the United States;
- announcements by us or our competitors of significant contracts, acquisitions, strategic partnerships, joint ventures, capital commitments, new technologies, or patents; and
- failure to complete significant transactions.

For example, the NASDAQ-100 Technology Sector Index (NDXT) had a range of $1,253.07 - $1,559.13 during the 52-weeks ended December 31, 2012 and the NASDAQ Composite Index (IXIC) had a range of $2,627.23 -

$3,196.93 over the same period. Over the same period, our common stock fluctuated within a range of $19.86 - $44.98.

The financial crisis affecting the banking system and financial markets and the uncertainty in global economic conditions, which began in late 2007 and has continued throughout 2012, have resulted in a tightening in the credit markets, a low level of liquidity in many financial markets, and extreme volatility in the credit, equity and fixed income markets. As noted above, our stock price, like many others, has fluctuated significantly in recent periods and if investors have concerns that our business, operating results and financial condition will be negatively impacted by global economic conditions, our stock price could continue to fluctuate significantly in future periods.

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our principal executive, corporate and administrative offices are located in Newport Beach, California, where we lease approximately 17,981 square feet of office space, under a lease agreement that expires in June 2016. Our primary operating subsidiary, Acacia Research Group, LLC, and its subsidiaries, are headquartered in Plano, Texas, where we lease approximately 12,137 square feet of office space, under a lease agreement that expires in June 2020. Certain of our operating subsidiaries also maintain additional leased office space in Atlanta, Georgia and Alexandria, Virginia. We believe that our facilities are adequate, suitable and of sufficient capacity to support our immediate needs.

ITEM 3. LEGAL PROCEEDINGS

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

In connection with any of our patent enforcement actions, it is possible that a defendant may request and/or a court may rule that we have violated statutory authority, regulatory authority, federal rules, local court rules, or governing standards relating to the substantive or procedural aspects of such enforcement actions. In such event, a court may issue monetary sanctions against us or our operating subsidiaries or award attorney's fees and/or expenses to a defendant(s), which could be material, and if required to be paid by us or our operating subsidiaries, could materially harm our operating results and our financial position.

ITEM 4. MINE SAFETY DISCLOSURES

None.

PART II

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

General

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

Price Range of Common Stock

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

	2012				2011			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
High	$27.80	$40.32	$44.98	$43.82	$43.83	$47.24	$41.89	$36.44
Low	$19.86	$23.24	$32.44	$34.75	$28.32	$32.39	$31.35	$22.12

Holders of Common Stock

On February 25, 2013, there were approximately 115 owners of record of our common stock. The majority of the outstanding shares of our common stock are held by a nominee holder on behalf of an indeterminable number of ultimate beneficial owners.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

On November 16, 2012, we announced that our Board of Directors authorized a program for repurchases of shares of our outstanding common stock. Under the stock repurchase program, effective November 16, 2012, we are authorized to purchase in the aggregate up to $100 million of our common stock through the period ending May 15, 2013. Repurchases may be made from time to time by us in the open market or in block purchases in compliance with applicable SEC rules. The following are our monthly stock repurchases for the fourth quarter of fiscal year 2012, all of which were purchased as part of publicly announced plans or programs:

	Total Number of Shares Purchased	Average Price paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet be Purchased under the Plans or Programs
November 16, 2012 - November 30, 2012	256,262	$21.58	256,262	$ 94,470,000
December 1, 2012 - December 31, 2012	873,146	$24.26	873,146	$ 73,268,000

1,129,408	1,129,408

The repurchases were made using existing cash resources and occurred in the open market.

Stock Price Performance Graph

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

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

	2008	2009	2010	2011	2012
Acacia Research Corporation common stock	$34	$101	$289	$407	$286
Nasdaq Composite Index (IXIC)	$59	$86	$100	$98	$114
NASDAQ-100 Technology Sector Index (NDXT)	$55	$98	$120	$113	$121

The graph covers the period from December 31, 2007 to December 31, 2012. Cumulative total returns are calculated assuming that $100 was invested on December 31, 2007, in our common stock, in the NASDAQ Composite Index, and in the NASDAQ-100 Technology Sector Index, and that all dividends, if any, were reinvested. Stockholder returns over the indicated period should not be considered indicative of future stock prices or shareholder returns.

Dividend Policy

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

ITEM 6. SELECTED FINANCIAL DATA

The consolidated selected balance sheet data as of December 31, 2012 and 2011 and the consolidated selected statements of income data for the years ended December 31, 2012, 2011 and 2010 set forth below have been derived from our audited consolidated financial statements included elsewhere herein, and should be read in conjunction with those financial statements (including notes thereto). The consolidated selected balance sheet data as of December 31, 2009, 2008 and 2007 and the consolidated selected statements of income (loss) data for the years ended December 31, 2008 and 2007 have been derived from audited consolidated financial statements not included herein, but which were previously filed with the SEC.

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

	For the Years Ended December 31,				
	2012	2011	2010	2009	2008
Revenues and other operating income[1]	$250,727	$184,707	$131,829	$67,340	$48,227
Inventor royalties and contingent legal fees expense - patents[1]	50,679	91,669	45,198	31,618	27,424
Litigation and licensing expenses - patents	21,591	13,005	13,891	14,055	6,900
Amortization of patents	39,019	9,745	6,931	4,634	6,043
Marketing, general and administrative expenses (including non-cash stock compensation expense)	54,083	35,693	25,067	21,070	21,130
Research, consulting and other expenses - business development	4,943	4,338	2,121	1,689	933
Operating income (loss)	80,412	30,257	38,621	(5,726)	(14,203)
Interest and investment income	937	96	135	302	570
Income (loss) from continuing operations before provision for income taxes	81,349	30,353	38,756	(5,424)	(13,633)
Provision for income taxes	(22,060)	(8,708)	(1,740)	(209)	(124)
Net income (loss) from continuing operations including noncontrolling interests in operating subsidiaries	59,289	21,645	37,016	(5,633)	(13,757)
Net loss (income) attributable to noncontrolling interests in operating subsidiaries	164	(539)	(2,965)	(5,657)	—
Net income (loss) attributable to Acacia Research Corporation	59,453	21,106	34,051	(11,290)	(13,757)
Net income (loss) per common share attributable to Acacia Research Corporation:					
Basic earnings per share	$1.26	$0.53	$1.05	$(0.38)	$(0.47)
Diluted earnings per share	$1.24	$0.51	$0.97	$(0.38)	$(0.47)
Weighted average number of shares outstanding, basic	47,251,061	39,743,433	32,306.322	29,914,801	29,423,998
Weighted average number of shares outstanding, diluted	48,060,647	41,258,297	35,081.611	29,914,801	29,423,998

Consolidated Balance Sheet Data (In thousands)

	At December 31,				
	2012	2011	2010	2009	2008
Total assets	$668,717	$352,877	$134,784	$78,256	$73,074
Total liabilities	$50,239	$30,765	$20,931	$22,287	$14,527
Noncontrolling interests in operating subsidiaries	$6,976	$2,163	$2,982	$2,507	$—
Acacia Research Corporation Stockholders' equity	$611,502	$319,949	$110,871	$53,462	$58,547

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

Factors Affecting Comparability:

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

- The increase in provision for income taxes in fiscal years 2012 and 2011 reflects the impact of foreign withholding taxes, totaling $11.9 million and $7.6 million, respectively, withheld by the applicable foreign tax authority on revenue agreements executed with third party licensees domiciled in certain foreign jurisdictions during the applicable periods.

- In fiscal years 2012, 2011 and 2010, amortization of patents included the acceleration of patent amortization related to recoupable up-front patent portfolio acquisition costs that were recovered, pursuant to the provisions of the underlying inventor agreements, totaling $10.6 million, $3.1 million and $1.2 million, respectively.

- Marketing, general and administrative expenses included non-cash stock compensation expense totaling $25.7 million, $13.6 million, $7.1 million, $7.1 million and $7.4 million in 2012, 2011, 2010, 2009 and 2008, respectively.

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

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

General

Our operating subsidiaries acquire, develop, license and enforce patented technologies. Our operating subsidiaries generate revenues and related cash flows from the granting of intellectual property rights for the use of, 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 licensing revenue from users of their patented technologies and, if necessary, with the enforcement against unauthorized users of their patented technologies. We are a leader in licensing patented technologies and have established a proven track record of licensing success with over 1,225 license agreements executed to date, across 143 of our technology licensing and enforcement programs. Currently, on a consolidated basis, our operating subsidiaries own or control the rights to over 250 patent portfolios, which include U.S. patents and certain foreign counterparts, covering technologies used in a wide variety of industries.

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

Overview

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

Acquisition. In January 2012, we acquired ADAPTIX, Inc., or ADAPTIX, a pioneer in the development of 4G technologies for wireless systems, for $150 million, net of cash acquired, as described below and at Note 8 to the consolidated financial statements elsewhere herein. With patents filed as early as 2000, ADAPTIX's research and development efforts have resulted in one of the most significant intellectual property portfolios focused on 4G technologies. With its rapidly growing portfolio of 230 issued and pending patents in 13 countries, ADAPTIX's innovations extend across a broad range of 4G technologies including OFDMA and MIMO.

Operating activities during the periods presented included the following:

	2012	2011	2010
Revenues and other operating income (in thousands)	$250,727	$184,707	$131,829
New agreements executed	138	125	221
	68	56	58

Licensing and enforcement programs generating revenues - during the respective period			
Licensing and enforcement programs with initial revenues	31	21	31
New patent portfolios	55	40	36
Cumulative number of licensing and enforcement programs generating revenues - inception to date	143	112	91

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

As of Date:	Trailing Twelve -Month Revenues	% Change	
December 31, 2012	$250,727	22	%
September 30, 2012	205,258	(12	)%
June 30, 2012	233,355	5	%
March 31, 2012	222,617	21	%
December 31, 2011	184,707	40	%
December 31, 2010	131,829	—	

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

- the dollar amount of agreements executed each period, which can be driven by the nature and characteristics of the technology or technologies being licensed and the magnitude of infringement associated with a specific licensee;
- the specific terms and conditions of agreements executed each period including the nature and characteristics of rights granted, and the periods of infringement or term of use contemplated by the respective payments;
- fluctuations in the total number of agreements executed each period;
- the timing, results and uncertainties associated with patent filings and other enforcement proceedings relating to our intellectual property rights;
- the relative maturity of licensing programs during the applicable periods; and
- other external factors.

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.

Revenues in fiscal year 2012 included fees from the following licensing and enforcement programs:

- 4G Wireless technology(1)
- Application Authentication technology(1)
- Audio Communications Fraud Detection technology
- Automotive Safety, Navigation and Diagnostics technology(1)
- Bone Graft Harvesting technology(1)(2)
- Bone Spacer Devices technology(1)(2)
- Bone Wedge technology(1)(2)
- Camera Support technology
- Consumer Rewards technology(1)
- Data Compression technology
- DDR SDRAM technology
- Digital Signal Processing Architecture technology
- Disk Array Systems & Storage Area Network technology
- Messaging technology
- Minimally Invasive Surgery technology(1)(2)
- Mobile Computer Synchronization technology
- Network Monitoring technology
- NOR Flash technology
- Online Ad Tracking technology
- Online Auction Guarantee technology
- Online Gaming technology(1)
- Optical Networking technology
- Optical Recording technology
- Optical Switching technology
- Pop-up Internet Advertising technology
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- DMT® technology
- Document Assembly Technology for Printers[1]
- Document Generation technology

Power Management Within Integrated Circuits technology

- Power-over-Ethernet technology
- Radiation Therapy technology[1][2]
- Rule Based Monitoring technology

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- Domain Name Redirection technology[1]
- Dynamic Random Access Memory technology[1]
- Enhanced Mobile Communications technology[1]
- Facilities Operation Management System technology
- Hearing Aid technology[1][2]
- Impact Instrument technology
- Improved Anti-Trap Safety Technology for Vehicles[1]
- Improved Lighting technology
- Improved Memory Manufacturing technology[1]
- Information Portal Software technology
- Information Storage, Searching and Retrieval technology[1]
- Integrated Access technology[1]
- Intraluminal Device technology[1][2]
- Lighting Ballast technology
- Location Based Services technology
- Medical Image Manipulation technology[1][2]
- Medical Monitoring technology[2]
- MEMS technology
- Semiconductor Memory and Process Patents[1]
- Shape Memory Alloys technology[2]
- Software Activation technology[1]
- Storage technology
- Surgical Access technology[1][2]
- Suture Anchors technology[1][2]
- Targeted Content Delivery & Network File Transfer technology
- Telematics technology
- Unicondylar Knee Replacement technology[1][2]
- User Programmable Engine Control technology
- Video Analytics for Security technology[1]
- Video Delivery and Processing technology[1]
- Video Encoding technology
- Videoconferencing technology[1]
- Visual Data Evaluation technology
- Voice-Over-IP Technology[1]
- Website Crawling technology
- Wireless Monitoring technology[1][2]

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

- Audio Communications Fraud Detection technology
- Biosensor technology[1][2]
- Camera Support technology
- Catheter Insertion technology[1][2]
- Computer Architecture and Power Management technology[1]
- Computer Graphics technology
- Data Compression technology[1]
- Database Retrieval technology[1]
- DDR SDRAM technology[1]
- Digital Signal Processing Architecture technology
- Digital Video Enhancement technology
- Disk Array Systems & Storage Area Network technology
- DMT® technology
- Document Generation technology[2]
- DRAM Memory architecture technology
- Electronic Message Advertising technology
- Facilities Operation Management System technology
- High Performance Computer Architecture technology
- Image Resolution Enhancement technology
- Impact Instrument technology[1]
- Magnetic Storage technology[1]
- Manufacturing Data Transfer technology
- MEMS technology[1]
- Messaging technology[1]
- Microprocessor Enhancement technology
- Mobile Computer Synchronization technology
- Network Monitoring 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]
- Rule Based Monitoring technology
- Semiconductor Manufacture technology[1]
- Shape Memory Alloys technology[1][2]
- Short Messaging in Cellular Telephony technology
- Software Installation technology

- Improved Commercial Print technology
- Improved Lighting technology
- Interactive Content in a Cable Distribution System technology[1]
- Interactive Mapping technology
- Item Identification technology
- Lighting Ballast technology
- Lighting Control technology[1]
- Location Based Services technology
- Storage technology
- Targeted Content Delivery technology[1]
- Telematics technology
- User Programmable Engine Control technology[1]
- Video Encoding technology[1]
- Virtual Server technology
- Visual Data Evaluation technology
- Website Crawling technology

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

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

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(1) Initial revenues recognized during the applicable period.

(2) Revenues were generated from our patent portfolios in the medical technology industry sector.

Summary of Results of Operations - For Fiscal Years 2012, 2011 and 2010
(In thousands, except percentage change values)

	Fiscal Year			% Change	
	2012	2011	2010	2012 vs. 2011	2011 vs. 2010
Revenues	$250,727	$172,256	$131,829	46 %	31 %
Verdict insurance proceeds	—	12,451	—	(100)%	100 %
Total revenues and other operating income	250,727	184,707	131,829	36 %	40 %
Operating costs and expenses**	170,315	154,450	93,208	10 %	66 %
Operating income	80,412	30,257	38,621	166 %	(22)%
Provision for income taxes	(22,060)	(8,708)	(1,740)	153 %	*
Net loss (income) attributable to noncontrolling interests***	164	(539)	(2,965)	(130)%	(82)%
Net income attributable to Acacia Research Corporation	59,453	21,106	34,051	182 %	(38)%

* Percentage change in excess of 300%
** Includes non-cash stock compensation charges of $25.7 million, $13.6 million and $7.1 million in fiscal years 2012, 2011 and 2010, respectively, included in Marketing, General and Administrative expense in the statements of income. Includes non-cash patent amortization expenses of $39.0 million, $9.7 million and $6.9 million in fiscal years 2012, 2011 and 2010, respectively.
***Refer to Note 1 to the notes to consolidated financial statements included elsewhere in this annual report for additional information.

Overview - Fiscal year 2012 compared with Fiscal Year 2011

- Revenues and other operating income increased $66.0 million, or 36%, due primarily to an increase in the average revenue per executed agreement and an increase in the total number of agreements executed in fiscal year 2012.
- In fiscal year 2012, $41.2 million, or 16.5%, of revenues were generated from our patent portfolios in the medical technology industry sector, as compared to $8.6 million, or 4.7%, in fiscal year 2011.
- Other operating income in fiscal year 2011 includes verdict insurance proceeds totaling $12.5 million, as described below under "Consolidated Results of Operations."
- Cost of Revenues and Other Operating Expenses:

Inventor royalties, net income attributable to noncontrolling interests, contingent legal fees, and applicable verdict insurance proceeds related costs, on a combined basis, decreased $41.0 million, or 45%, as compared to the 36% increase in related revenues and other operating income for the same periods, due primarily to a greater percentage of revenues generated in fiscal year 2012 having no inventor royalty or contingent legal fee arrangement obligations, and lower average inventor royalty and contingent legal fee rates for the portfolios generating revenues in fiscal year 2012.
Litigation and licensing expenses-patents increased $8.6 million, or 66%, to $21.6 million, due primarily to higher net levels of patent prosecution, litigation support, third-party technical consulting and professional expert expenses associated with our investment in ongoing licensing and enforcement programs and new licensing and enforcement programs commenced since the end of fiscal year 2011.
Marketing, general and administrative expenses increased $18.4 million, or 52%, to $54.1 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 and an increase in restricted shares vesting in 2012, a net increase in licensing, business development, and engineering personnel since the end of fiscal year 2011, an increase in variable performance-based compensation costs and a net increase in corporate general and administrative costs.

Patent amortization increased $29.3 million, or 300%, to $39.0 million, due primarily to amortization expense related to new patent portfolios acquired in fiscal year 2012 and a net increase in accelerated patent amortization related to recoupable up-front patent portfolio acquisition costs recovered during fiscal year 2012.

Our effective tax rate remained relatively flat at 27% and 29% for fiscal year 2012 and 2011, respectively. Tax expense for fiscal year 2012 and 2011primarily reflects foreign withholding taxes withheld by the applicable foreign tax authority on revenue agreements executed with third party licensees domiciled in certain foreign jurisdictions, totaling $11.9 million and $7.6 million, respectively, and noncash tax expense resulting from the calculation of tax expense without the excess tax benefit related to the exercise and vesting of equity-based incentive awards for financial statement purposes.

Overview - Fiscal year 2011 compared with Fiscal Year 2010

- Revenues and other operating income increased $52.9 million, or 40%, due primarily to an increase in the average revenue per executed agreement, which was partially offset by a decrease in the total number of agreements executed in fiscal year 2011.
- Other operating income includes verdict insurance proceeds totaling $12.5 million received during fiscal year 2011, as described below under "Consolidated Results of Operations."
- Cost of Revenues and Other Operating Expenses:
Inventor royalties, net income attributable to noncontrolling interests, contingent legal fees, and applicable verdict insurance proceeds related costs, on a combined basis, increased $43.3 million, or 89%, primarily reflecting the increase in related revenues and other operating income for fiscal year 2011. The increase was greater than the percentage increase in related revenues and other operating income due to, in the aggregate, lower or no inventor royalty or contingent legal fee arrangement obligations associated with a higher percentage of the portfolios generating revenues in fiscal year 2010.
Verdict insurance proceeds related costs for fiscal year 2011 totaled $7.7 million, as described below under "Consolidated Results of Operations".
Litigation and licensing expenses-patents decreased $886,000, or 6%, to $13.0 million, due to a lower net level of litigation support, third party technical consulting and professional expert expenses incurred in fiscal year 2011.
Marketing, general and administrative expenses increased $10.6 million, or 42% to $35.7 million, due primarily to an increase in non-cash stock compensation charges resulting from an increase in the average grant date fair value of restricted shares expensed during fiscal year 2011, an increase in annual one-time variable performance based compensation charges, an increase in other variable performance based compensation charges, a net increase in business development, engineering and other personnel since the end of the prior year period, and a net increase in corporate, general and administrative costs.
Patent amortization increased $2.8 million, or 41% to $9.7 million, due primarily to the acceleration of patent amortization related to recoupable up-front patent portfolio acquisition costs that were recovered in fiscal year 2011 and an increase in amortization related to new patent portfolios acquired in fiscal year 2011.

    The increase in provision for income taxes primarily reflects the impact of foreign withholding taxes withheld by the applicable foreign tax authority on revenue agreements executed with third party licensees domiciled in certain foreign jurisdictions, totaling $7.6 million in fiscal year 2011.

Patent Licensing and Enforcement

We expect patent-related legal expenses to continue to fluctuate from period to period based on the factors summarized below, in connection with future trial dates and our current and future patent acquisition, development, licensing and enforcement activities. The pursuit of enforcement actions in connection with our licensing and enforcement programs can involve certain risks and uncertainties, including the following:

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

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Our patented technologies and enforcement actions are complex, and as a result, we may be required to appeal adverse decisions by trial courts in order to successfully enforce our patents;

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

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

Investments in Patent Portfolios

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

In fiscal years 2012, 2011 and 2010, certain of our operating subsidiaries continued to execute their business strategy in the area of patent portfolio acquisitions. In fiscal year 2012, including the acquisition of ADAPTIX, we acquired a total of 55 new patent portfolios with applications over a wide range of technology areas, as compared to 40 new patent portfolios, and 36 new patent portfolios in fiscal years 2011 and 2010, respectively. Patent portfolio acquisition costs in fiscal year 2012 totaled $328.3 million (including the acquisition of ADAPTIX), as compared to $14.7 million and $8.2 million in fiscal years 2011 and 2010, respectively.

Patent portfolio acquisitions in fiscal years 2012, 2011 and 2010 were comprised of the following:

	Number of Patent Portfolios								
	2012	%		2011	%		2010	%	
Partnering - revenue share with upfront cash advance and preferred returns	25	45	%	7	18	%	14	39	%
Partnering - revenue share with no upfront cash advance	19	35	%	20	50	%	21	58	%
Outright purchase	10	18	%	13	32	%	1	3	%
Acquisition of ADAPTIX, Inc.	1	2	%	—	—	%	—	—	%
	55	100	%	40	100	%	36	100	%

In general, the majority of acquisition costs incurred for patent portfolios with future inventor royalty obligations are subject to contractual provisions providing for higher percentage returns to our operating subsidiaries early in the licensing and enforcement program until such initial upfront acquisition costs are fully recovered.

The higher level of acquisition costs incurred in the periods presented in part, reflects our continued identification of opportunities to partner with patent owners, including individual inventors, small technology companies, research laboratories, universities, and major technology companies and exchange upfront and / or advanced royalty payments to patent owners, for no or a reduced future inventor royalty percentages, resulting in the potential for higher returns on our investments in connection with future licensing and enforcement activities.

In addition to trailing twelve-month revenues as discussed above, we also measure and assess the performance and growth of the patent licensing and enforcement business conducted by our operating subsidiaries based on the number of patent portfolios owned or controlled by our operating subsidiaries on a consolidated basis. As of December 31, 2012, 2011 and 2010, on a consolidated basis, our operating subsidiaries owned or controlled the rights to approximately 250, 200, and 171 patent portfolios, respectively, which include U.S. patents and certain foreign counterparts covering technologies used in a wide variety of industries.

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

Acquisitions in fiscal year 2012 included the acquisition of, or the acquisition of rights to, 55 patent portfolios covering a variety of applications and technology industry areas, including the following:

- In January 2012, we acquired patents relating to catheter ablation technology.
- In January 2012, we acquired patents relating to online user registration technology.
- In January 2012, we acquired rights to patents relating to optical networking technology.

- In February 2012, we acquired over 300 patents from Automotive Technologies International relating to numerous automotive safety, navigation and diagnostics technologies.
- In April 2012, we entered into a patent licensing alliance with TeleCommunication Systems, Inc. (TCS) to become the exclusive licensor of TCS' inter-carrier messaging (ICM) patent portfolio.
- In May 2012, we acquired patents, originally issued to Polaroid, covering digital imaging and related technologies.
- In May 2012, we acquired rights to 6 prominent patent portfolios comprising 68 patents covering a wide range of software technologies relating to business intelligence and data analysis, office productivity, virtualization, graphical user interfaces, search, and software development.
- In June 2012, we acquired 7 medtech patent portfolios comprised of over 150 patents and pending applications relating to medical devices, biologics and diagnostic techniques.
- In June 2012, we acquired patents for x-ray powder diffraction technology.
- In June 2012, we acquired 5 patent portfolios with 156 U.S. and international patents from a major semiconductor technology company.
- In June 2012, we acquired patents relating to computer aided design tools.
- In June 2012, we acquired 4 patent portfolios with 48 U.S. and international patents from a major technology company.
- In July 2012, acquired a patent for intraluminal device technology.
- In August 2012, acquired rights to patents for 360 degree view technology.
- In September 2012, acquired a patent for stent graft technology.
- In September 2012, acquired 23 patents covering gas heating and cooling control systems. The acquisition includes an ongoing royalty stream with a major manufacturer.
- In September 2012, acquired patents covering Product Lifecycle Management (“PLM”) technology.
- In September 2012, acquired patents for radio frequency modulation technology used in mobile devices such as smartphones, tablets, and laptops from a major technology company.
- In September 2012, acquired 7 patent portfolios with over 1,900 patents and applications relating to stent grafts, vascular grafts, bypass grafts, graft retrieval technology, graft manufacturing technology, vena cava filter technology and filter retrieval technology from a leading global medical device company.
- In December 2012, acquired patents for Micro-Location Technology.
- In December 2012, acquired patents for Wireless Infrastructure and User Equipment Technology from Nokia Siemens Networks relating to second (2G), third (3G) and fourth (4G) generation wireless technologies.
- In December 2012, acquired rights to patents in the orthopedic technology sector.
- In December 2012, TeleCommunication Systems, Inc. (“TCS”) and a subsidiary of Acacia entered into a patent licensing alliance, whereby the Acacia subsidiary has acquired the rights to a portion of TCS' wireless data synchronization & data transfer patent portfolio.
- In December 2012, acquired patents covering broadband communications technologies such as digital subscriber line (DSL) modems and voice-over-internet-protocol (VoIP) phones.

As of December 31, 2012, 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.

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

Acacia Intellectual Property Fund, L.P.

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

Critical Accounting Policies

Our consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. In preparing these financial statements, we make assumptions, judgments and estimates that can have a significant impact on amounts reported in our consolidated financial statements. We base our assumptions, judgments and estimates on historical experience and various other factors that we believe to be reasonable under the circumstances. Actual results could differ materially from these estimates under different assumptions or conditions. On a regular basis, we evaluate our assumptions, judgments and estimates and make changes accordingly.

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

- revenue recognition;
- stock-based compensation expense;
- valuation of long-lived and intangible assets;
- impairment of marketable securities; and
- accounting for business combinations - acquisition method of accounting.

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

Revenue Recognition

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

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

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

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

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

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

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

During the years ended December 31, 2012 and 2011 and 2010, we entered into significant agreements with unrelated third parties resolving pending patent matters that resulted in the grant of certain intellectual property rights and recognition of revenues, portions of which were not subject to inventor royalty and contingent legal fee arrangements, as well as the grant of licenses from certain of our operating subsidiaries and recognition of revenues that were subject to inventor royalties and contingent legal fee arrangements. Revenues recognized subject to inventor royalties and contingent legal fees are based on a determination by the respective operating subsidiaries. Depending on the magnitude of specific revenue arrangements, if different judgments are made regarding revenues subject to inventor royalties and contingent legal fees in any specific period, our periodic financial results may be materially affected.

Stock-based Compensation Expense

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

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

Valuation of Long-lived and Intangible Assets

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

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

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

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

Impairment of Marketable Securities

U.S. generally accepted accounting principles define fair value as the price that would be received for an asset or the exit price that would be paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants on the measurement date, and also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs, where available. The three-level hierarchy of valuation techniques established to measure fair value, is defined as follows:

- Level 1 - Observable Inputs: Quoted prices in active markets for identical investments;
- Level 2 - Pricing Models with Significant Observable Inputs: Other significant observable inputs, including quoted prices for similar investments, interest rates, credit risk, etc.; and

- Level 3 - Unobservable Inputs: Significant unobservable inputs, including the entity's own assumptions in determining the fair value of investments.

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

At December 31, 2012 and 2011, our investments were comprised of money market funds (included in cash and cash equivalents in the accompanying consolidated balance sheets), strategic investments in marketable equity securities (included in short term investments in the accompanying consolidated balance sheet as of December 31, 2012), and certain auction rate securities (included in noncurrent investments in the accompanying consolidated balance sheet for 2011 only). All outstanding auction rate securities as of December 31, 2011, were sold during the year ended December 31, 2012. Investments in marketable equity securities are classified as available-for-sale and are reported at fair value, and included in Level 1 of the valuation hierarchy described above. Investments in auction rate securities are classified as available-for-sale, and are reported at fair value, and included in Level 3 of the valuation hierarchy described above. The fair values of auction rate securities included in Level 3 of the hierarchy of valuation techniques are estimated utilizing an analysis of certain unobservable inputs and by reference to a discounted cash flow analysis. These analyses consider, among other items, the underlying structure of each security, the collateral underlying the security investments, the creditworthiness of the counterparty, the present value of future principal and contractual interest payments discounted at rates considered to be reflective of current market conditions, consideration of the probabilities of default, continued auction failure, or repurchase or redemption at par for each period, and estimates of the time period over which liquidity related issues will be resolved. Observable market data for instruments with similar characteristics to our auction rate securities is also considered when possible.

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

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

Accounting for Business Combinations - Acquisition Method of Accounting

Acquisitions are accounted for in accordance with the acquisition method of accounting under Financial Accounting Standards Board, or FASB, ASC Topic 805, "Business Combinations," or Topic 805. Topic 805 requires, among other things, that identifiable assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date. Under the acquisition method of accounting, the purchase consideration is allocated to the assets acquired, including tangible assets, patents and other identifiable intangible assets and liabilities assumed, based on their estimated fair market values on the date of acquisition. Any excess purchase price after the initial allocation to identifiable net tangible and identifiable intangible assets is assigned to goodwill. Amounts attributable to patents are amortized using the straight-line method over the estimated economic useful life of the underlying patents. Acquisition accounting includes the establishment of a net deferred tax asset or liability resulting from book tax basis differences related to assets acquired and liabilities assumed on the date of acquisition.

We assess fair value for financial statement purposes using a variety of methods, including the use of present value models and may also reference independent analyses. Amounts recorded as intangible assets, including patents and patent rights, are based on assumptions and estimates, as of the date of acquisition, regarding the amount and timing of projected revenues and costs associated with the licensing and enforcement of patents and patent rights acquired, appropriate risk-adjusted discount rates, rates of technology adoption, market penetration, technological obsolescence, product launch timing, the impact of competition or lack of competition in the market place, tax implications and other factors. Also, upon acquisition, based on several of the estimates and assumptions previously described, we determine the estimated economic useful lives of the acquired intangible assets for amortization purposes.

Management is responsible for determining the fair value of the tangible and identifiable intangible assets acquired and liabilities assumed as of the acquisition date, solely for purposes of allocating the purchase price to the assets acquired and liabilities assumed. Fair value measurements can be highly subjective, and it is possible that other professionals for other purposes, applying reasonable judgment and criteria to the same facts and circumstances, could develop and support a range of alternative estimated amounts. Actual results may vary from projected results.

Consolidated Results of Operations
Comparison of the Results of Operations for Fiscal Years 2012, 2011 and 2010

Revenues and Other Operating Income

	2012	2011	2010	2012 vs. 2011 $ Change	2012 vs. 2011 % Change	2011 vs. 2010 $ Change	2011 vs. 2010 % Change
	(in thousands, except percentages)						
Revenues	$250,727	$172,256	$131,829	$78,471	46 %	$40,427	31 %
Verdict insurance proceeds	—	12,451	—	(12,451)	(100)%	12,451	100 %
	$250,727	$184,707	$131,829	$66,020	36 %	$52,878	40 %

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.

	2012	2011	2010
New revenue agreements executed	138	125	221
Licensing and enforcement programs with initial revenues	31	21	31
Average revenue per agreement (in thousands)	$1,817	$1,378	$597

A summary of the main drivers of the change in revenues for the periods presented is as follows:

	2012 vs. 2011	2011 vs. 2010
	(in thousands)	
Increase (decrease) in number of agreements executed	$23,619	$(132,293)
Increase in average revenue per agreement executed	54,852	172,720
Total	$78,471	$40,427

Four licensees individually accounted for 21%, 14%, 10%, and 10% respectively, of revenues recognized in fiscal year 2012, three licensees individually accounted for 26%, 17% and 15%, respectively, of revenues recognized in fiscal year 2011, and two licensees individually accounted for 35% and 19%, respectively, of revenues recognized in fiscal year 2010.

On a consolidated basis, as of December 31, 2012, 143 of our licensing programs had begun generating licensing revenues, up from 112 as of December 31, 2011 and 91 as of December 31, 2010.

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. As a result of the reversal of the

District Court's judgment, in September 2011, CIAC submitted a claim under a specific contingency insurance policy previously purchased and received $12.5 million in verdict insurance proceeds.

Cost of Revenues and Other Operating Income, and Net Income Attributable to Noncontrolling Interests

	2012	2011	2010	2012 vs 2011 $ Change	2012 vs 2011 % Change	2011 vs 2010 $ Change	2011 vs 2010 % Change
	(in thousands, except percentages)						
Inventor royalties**	$26,028	$46,614	$25,292	$(20,586)	(44)%	$21,322	84%
Contingent legal fees**	24,651	44,247	19,906	(19,596)	(44)%	24,341	122%
Other verdict insurance related costs	—	808	—	(808)	(100)%	808	100%
Net income attributable to noncontrolling interests*	—	—	(3,191)	—	—%	3,191	(100)%

* Refer to Note 2 to the notes to consolidated financial statements included in this report for additional information.
**Includes inventor royalties and contingent legal fees (fiscal year 2011 only) associated with the verdict insurance policy and related proceeds received, as described below.

Inventor Royalties, Net Income Attributable to Noncontrolling Interests and Contingent Legal Fees Expense. Net income or loss attributable to noncontrolling interests represents the portion of net income or loss from the licensing and enforcement activities of our majority-owned operating subsidiaries that are distributable to the operating subsidiary's noncontrolling interest holders pursuant to the underlying operating agreements. The economic terms of patent acquisition agreements, operating agreements and contingent legal fee arrangements, associated with the patent portfolios owned or controlled by our operating subsidiaries, if any, including royalty obligations, if any, royalty rates, contingent fee rates and other terms and conditions, vary across the patent portfolios owned or controlled by our operating subsidiaries. In certain instances, we have acquired certain patent portfolios outright without future inventor royalty obligations. These costs fluctuate period to period, based on the amount of revenues recognized each period, the terms and conditions of revenue agreements executed each period and the mix of specific patent portfolios with varying economic terms, conditions and obligations generating revenues each period.

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

A summary of the main drivers of the change in inventor royalties expense (including noncontrolling interests as applicable) and contingent legal fees expense, in relation to the change in total revenues, for the periods presented, is as follows:

	2012 vs. 2011	% of Prior Period Balance	2011 vs. 2010	% of Prior Period Balance
	(in thousands, except percentage change values)			
Decrease in inventor royalty rates	$(6,326)	(14)%	$(6,750)	(24)%
Increase in total revenues	18,016	39%	16,520	58%
(Increase) decrease in revenues without inventor royalty obligations	(32,276)	(69)%	8,361	29%
Total change in inventor royalties expense (including noncontrolling interests as applicable)	$(20,586)	(44)%	$18,131	63%

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	2012 vs. 2011	% of Prior Period Balance	2011 vs. 2010	% of Prior Period Balance
	(in thousands, except percentage change values)			
(Decrease) increase in contingent legal fee rates	$(30,483)	(68)%	$7,798	40%
Increase in total revenues	16,542	37%	10,915	55%
(Increase) decrease in revenues without contingent legal fee obligations	(5,655)	(13)%	5,628	27%
Total change in contingent legal fees	$(19,596)	(44)%	$24,341	122%

Certain revenue agreements with unrelated third parties entered into during the periods presented 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.

	2012	2011	2010
	(in thousands)		
Litigation and licensing expenses - patents	$21,591	$13,005	$13,891
Amortization of patents	39,019	9,745	6,931

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.

Fiscal Year 2012 versus 2011. Litigation and licensing expenses-patents increased due primarily to higher net levels of patent prosecution, litigation support, third-party technical consulting and professional expert expenses associated with ongoing licensing and enforcement programs and our investment in new licensing and enforcement programs commenced since the end of the prior year period.

Fiscal Year 2011 versus 2010. Litigation and licensing expenses-patents were relatively flat reflecting consistent net levels of related patent enforcement and prosecution activity associated with our continued investment in ongoing licensing and enforcement programs and new licensing and enforcement programs commenced since the end of the applicable prior year period.

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

Amortization of Patents.

Fiscal Year 2012 versus 2011. Amortization expense increased 300% due primarily to amortization expense related to new patent portfolios acquired since December 31, 2011, totaling $19.9 million, comprised primarily of non-cash patent amortization expense related to the patents acquired in connection with our acquisition of ADAPTIX in the first quarter of 2012, totaling $14.6 million. The increase also reflects a net increase in accelerated patent amortization related to recoupable up-front patent portfolio acquisition costs recovered from net licensing proceeds totaling $7.5 million and a net increase in accelerated amortization related to the sale of patent portfolios totaling $2.0 million.

Fiscal Year 2011 versus 2010. Amortization expense increased 41% primarily due to a net increase in accelerated patent amortization related to recoupable up-front patent portfolio acquisition costs recovered from net licensing proceeds totaling $1.9 million, a net increase in accelerated amortization related to patent portfolios to which our operating subsidiary elected to terminate its rights and other patent portfolio sales to unrelated parties totaling $547,000, a net increase in scheduled amortization on patent portfolios owned or controlled as of the end of the prior period totaling $207,000, and an increase in amortization on new patent portfolios acquired since the end of the prior year period totaling $118,000.

Operating Costs and Expenses

	2012	2011	2010
	(in thousands)		
Marketing, general and administrative expenses	$28,426	$22,114	$17,946
Non-cash stock compensation expense included in marketing, general and administrative expense	25,657	13,579	7,121
Total marketing, general and administrative expenses	$54,083	$35,693	$25,067
Research, consulting and other expenses - business development	4,943	4,338	2,121

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):

	2012 vs. 2011	2011 vs. 2010
	(in thousands)	
Net increase in licensing, business development, engineering related personnel costs and other personnel costs	$2,083	$2,172
Increase in variable performance-based compensation costs	2,728	1,303
Corporate, general and administrative costs	1,222	796
Non-cash stock compensation expense	12,078	6,458
Other	279	(103)
Total change in marketing, general and administrative expenses	$18,390	10,626

The change in non-cash stock compensation expense for the periods presented was due primarily to an increase in the average grant date fair value of restricted shares expensed and an increase in the number of restricted shares expensed period to period. Refer to Note 11 to the consolidated financial statements elsewhere herein.

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

Provision for Income Taxes

	2012	2011	2010
Provision for income taxes (in thousands)	$22,060	$8,708	$1,740
Effective tax rate	27%	29%	4%

Fiscal Year 2012 versus 2011. Excluding the impact of discrete items primarily related to the release of valuation allowance in fiscal year 2012 as described below, our annual effective tax rates were 40% and 29% for fiscal year 2012 and 2011, respectively. The fluctuation in tax expense included the impact of the following:

- Noncash tax expense calculated without the excess tax benefit related to the exercise and vesting of equity-based incentive awards, totaling approximately $13.2 million and $583,000 for fiscal year 2012 and

2011, respectively, which were credited to additional paid-in capital, not taxes payable, and other state related taxes. For financial reporting purposes, tax expense is calculated without the excess tax benefit related to the exercise and vesting of equity-based incentive awards. 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, not taxes payable, as the expense does not reflect cash taxes payable. The deductions related to the exercise and vesting of equity-based incentive awards is available to offset taxable income on our consolidated tax returns.

- Foreign withholding taxes, totaling $11.9 million and $7.6 million for fiscal year 2012 and 2011, respectively, withheld by the applicable foreign tax authority on revenue agreements executed with third party licensees domiciled in certain foreign jurisdictions. In general, foreign taxes withheld may be claimed as a deduction on future U.S. corporate income tax returns, or as a credit against future U.S. income tax liabilities, subject to certain limitations. The tax provisions for the respective periods provide for the utilization of the foreign taxes withheld as a credit against income tax expense calculated for financial statement purposes.
- As of December 31, 2011, we maintained a full valuation allowance against our net deferred tax assets. The net deferred tax liability resulting from the acquisition of ADAPTIX created an additional source of income to utilize against the majority of our existing consolidated net deferred tax assets. In addition, we estimated that certain other deferred tax assets related to foreign tax credits and other state related deferreds were more likely than not realizable in future periods. Accordingly, the valuation allowance on the majority of our net deferred tax assets was released, resulting in a first quarter 2012 financial statement income tax benefit of approximately $10.7 million .

Fiscal Year 2011 versus 2010. The increase in our effective tax rate in fiscal year 2011, as compared to 2010, primarily reflects the impact of foreign withholding taxes totaling $7.6 million, which were withheld by the applicable foreign tax authority pursuant to the requirements of the applicable income tax convention, on payments in connection with certain licensing arrangements executed during fiscal year 2011. As of December 31, 2011, we continued to record a full valuation allowance against our net deferred tax assets. As a result, amounts related to foreign taxes withheld are reflected in tax expense for fiscal year 2011. The increase was partially offset by a decrease in noncash state tax expense calculated for financial reporting purposes without the excess tax benefit related to the exercise and vesting of equity-based incentive awards in fiscal year 2011.

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

Inflation

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

Liquidity and Capital Resources

General

Our primary sources of liquidity are cash, cash equivalents and investments on hand generated from our operating activities and proceeds from recent equity financings. Refer to "Cash Flows from Financing Activities" below for information
regarding recent equity financings. We retain broad discretion over the use of the net proceeds from recent equity offerings and intend to use the net proceeds for operations and for other general corporate purposes, including, but not limited to, working capital, strategic acquisitions and other transactions.

Our management believes that our cash and cash equivalents, investments, anticipated cash flow from operations and other external sources of available credit, will be sufficient to meet our cash requirements through at least March 2014 and for the foreseeable future. We may, however, encounter unforeseen difficulties that may deplete our capital resources more rapidly than anticipated, including those set forth under Item 1A, "Risk Factors", above. Any efforts to seek additional funding could be made through issuances of equity or debt, or other external financing. However, additional funding may not be available on favorable terms, if at all. The capital and credit markets have experienced extreme volatility and disruption since late 2007, and the volatility and impact of the disruption has continued into 2012. At times during this period, the volatility and disruption has reached unprecedented levels. In several cases, the markets have exerted downward pressure on stock prices and credit capacity for certain issuers, and there can be no assurance that the commercial paper markets will be a reliable source of short-term financing for us. If we fail to obtain additional funding when needed, we may not be able to execute our business plans and our business, conducted by our operating subsidiaries, may suffer.

Cash, Cash Equivalents and Investments

Our consolidated cash, cash equivalents and investments on hand totaled $311.3 million at December 31, 2012, compared to $323.3 million at December 31, 2011. The net change in cash and cash equivalents on hand related to operations for 2012, 2011 and 2010 was comprised of the following (in thousands):

	2012	2011	2010
Net cash provided by (used in):			
Operating activities	$104,603	$60,590	$44,922
Investing activities	(408,792)	(23,237)	(8,098)
Financing activities	211,260	174,865	13,956

Cash Flows from Operating Activities. Cash receipts from licensees totaled $243.8 million, $189.9 million and $127.4 million in fiscal years 2012, 2011 and 2010, respectively. The fluctuations in cash receipts for the periods presented primarily reflects the corresponding fluctuations in revenues recognized during the same periods, as described above. Cash outflows from operations totaled $145.7 million, $129.3 million and $82.5 million in fiscal years 2012, 2011 and 2010, respectively. The fluctuations in cash outflows for the periods presented reflect the net increase in revenue related inventor royalties and contingent legal fees and other operating costs and expenses during the same periods, as discussed above, and the impact of the timing of payments to inventors, attorneys and other vendors.

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

	2012	2011	2010
Purchase of ADAPTIX, Inc., net of cash acquired	$(150,000)	$—	$—
Patent acquisition costs	(178,260)	(14,680)	(8,224)
Net (purchases) sales of available-for-sale investments	(80,264)	(8,367)	184
Other	(268)	(190)	(58)
Net cash used in investing activities	$(408,792)	$(23,237)	$(8,098)

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

	2012	2011	2010
Proceeds from sale of common stock, net of issuance costs	$218,961	$175,229	$—
Repurchases of common stock	(26,732)	—	—
Distributions to noncontrolling interests - Acacia IP Fund	(312)	(2,897)	(4,807)
Contributions from noncontrolling interests - Acacia IP Fund	5,793	1,539	2,393
Proceeds from the exercise of stock options	340	411	15,068
Excess tax benefits from stock-based compensation	13,210	583	1,302
Net cash provided by financing activities	$211,260	$174,865	$13,956

On November 16, 2012, we announced that our Board of Directors authorized a program for repurchases of shares of our outstanding common stock. Under the stock repurchase program, effective November 16, 2012, we are authorized to purchase in the aggregate up to $100 million of our common stock through the period ending May 15, 2013. Repurchases may be made from time to time by us in the open market or in block purchases in compliance with applicable SEC rules. From the effective date through December 31, 2012, we acquired 1,129,408 shares of our common stock at an average price of $23.65 per share. Repurchases to date were made using existing cash resources and occurred in the open market.

Working Capital

The primary components of working capital are cash and cash equivalents, accounts receivable, prepaid expenses, accounts payable, accrued expenses, and royalties and contingent legal fees payable. Working capital at December 31, 2012 was $302.6 million, compared to $294.9 million at December 31, 2011.

Consolidated accounts receivable from licensees increased to $9.8 million at December 31, 2012, compared to $2.9 million at December 31, 2011. Accounts receivable balances fluctuate based on the timing, magnitude and payment terms associated with revenue agreements executed during the period, and the timing of cash receipts on accounts receivable balances recorded in previous periods. Three licensees individually represented approximately 34%, 30% and 25%, respectively, of accounts receivable at December 31, 2012. Five licensees individually represented approximately 18%, 15%, 14%, 13% and 10%, respectively, of accounts receivable at December 31, 2011.

Consolidated royalties and contingent legal fees payable decreased to $12.5 million at December 31, 2012, compared to $23.5 million at December 31, 2011. Royalties and contingent legal fees payable balances fluctuate based on the magnitude and timing of the execution of related license agreements, the timing of cash receipts for the related license agreements, and the timing of payment of current and prior period royalties and contingent legal fees payable to inventor and outside attorneys, respectively.

The majority of accounts receivable from licensees at December 31, 2012 were collected or scheduled to be collected in the first quarter of 2013, in accordance with the terms of the related underlying license agreements. The majority of royalties and contingent legal fees payable are scheduled to be paid in the first quarter of 2013 in accordance with the underlying contractual arrangements.

Accounts payable and accrued expenses increased to $9.5 million at December 31, 2012, from $6.6 million at December 31, 2011, due primarily to the increase in accrued performance based compensation costs, an increase in litigation and licensing expenses-patents described above and the related timing of payments to vendors in the ordinary course.

Off-Balance Sheet Arrangements

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

Contractual Obligations

We have no significant commitments for capital expenditures in 2013. We have no committed lines of credit or other committed funding or long-term debt. The following table lists our material known future cash commitments as of December 31, 2012, and any material known commitments arising from events subsequent to year end:

	Payments Due by Period (In thousands)			
	Total	Less than 1 year	1-3 years	More than 3 years
Operating leases	$5,223	$1,078	$2,268	$1,877
Accrued distributions to noncontrolling interests in operating subsidiary	504	504	—	—
Scheduled patent acquisition related payments	500	250	250	—
Total contractual obligations	$6,227	$1,832	$2,518	$1,877

Uncertain Tax Positions. At December 31, 2012, the Company had total unrecognized tax benefits of approximately $2,127,000, including a recorded noncurrent liability of $85,000, related to unrecognized tax benefits primarily associated with state taxes. No interest and penalties have been recorded for the unrecognized tax benefits as of December 31, 2012. If recognized, approximately $2,127,000 would impact the Company's effective tax rate. The

Company does not expect that the liability for unrecognized tax benefits will change significantly within the next 12 months. Activity related to the gross unrecognized tax benefits for the year ended December 31, 2012 was as follows (in thousands):

Balance at January 1, 2012	$85
Additions based on tax positions related to the current year	—
Additions for tax positions related to prior years	772
Additions resulting from the acquisition of ADAPTIX	1,270
Reductions	—
Balance at December 31, 2012	$2,127

Recent Accounting Pronouncements

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The primary objective of our investment activities is to preserve principal while concurrently maximizing the income we receive from our investments without significantly increasing risk. In addition, we sometimes invest in marketable equity securities for strategic purposes related to our patent monetization-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 interest rates, with respect to interest rate risk, or a change in the value of the United States equity markets, with respect to market risk, may cause the principal amount or market value of the investments to fluctuate. For example, if we hold a security that was issued with a fixed interest rate at the then-prevailing rate and the prevailing interest rate later rises, the current value of the principal amount of our investment may decline. To minimize these risks in the future, we intend to maintain our portfolio of cash equivalents and short-term investments in a variety of securities, including commercial paper, money market funds, high-grade corporate bonds, government and non-government debt securities and certificates of deposit. However, to the extent that our marketable equity securities have strategic value, we typically do not attempt to reduce or eliminate market risk with respect to such securities through hedging activities.

At December 31, 2012 and 2011, our short-term investments were comprised of AAA rated money market funds that invest in first-tier only securities, which primarily include domestic commercial paper, securities issued or guaranteed by the U.S. government or its agencies, U.S. bank obligations, and fully collateralized repurchase agreements (included in cash and cash equivalents in the accompanying consolidated balance sheets), direct investments in highly liquid, AAA, U.S. government securities, and strategic investments in marketable equity securities (included in short term investments in the accompanying consolidated balance sheet as of December 31, 2012). All outstanding auction rate securities as of December 31, 2011, were sold during the year ended December 31, 2012.

In general, money market funds are not subject to market risk because the interest paid on such funds fluctuates with the prevailing interest rate. Accordingly, a 100 basis point increase in interest rates or a 10% decline in the value of the United States equity markets would not be expected to have a material impact on the value of such money market funds. Investments in U.S. government fixed income securities are subject to interest rate risk and will decline in value if interest rates increase. However, due to the relatively short duration of our investment portfolio, an immediate 10% change in interest rates would have no material impact on our financial condition, results of operations or cash flows. Declines in interest rates over time will, however, reduce our interest income. Marketable equity securities are subject to increased market risk sensitivity, but are not directly impacted by interest rate risk. To determine reasonably possible decreases in the value of our marketable equity investments, we analyzed the expected market price sensitivity of our marketable equity investment portfolio. Assuming a loss of 10% in the value of the United States equity markets, the aggregate value of our marketable equity investments could decrease by approximately 14%.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

(a) Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2012, our disclosure controls and procedures were effective to ensure that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure, and that such information is recorded, processed, summarized and reported within the time periods prescribed by the SEC.

(b) Management’s Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in Internal Control - Integrated Framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2012.

Grant Thornton LLP, the independent registered public accounting firm who audited our consolidated financial statements included in this Annual Report on Form 10-K, has issued a report on our internal control over financial reporting, which is included herein.

Changes in Internal Controls. There were no changes in our internal control over financial reporting during the fourth fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Except as provided below, in accordance with General Instruction G(3) to Form 10-K, certain information required by this Item is incorporated herein by reference to our definitive proxy statement to be filed with the SEC no later than April 30, 2013.

Code of Conduct.

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

ITEM 11. EXECUTIVE COMPENSATION

In accordance with General Instruction G(3) to Form 10-K, the information required by this Item is incorporated herein by reference to our definitive proxy statement to be filed with the SEC no later than April 30, 2013.

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

In accordance with General Instruction G(3) to Form 10-K, certain information required by this Item is incorporated herein by reference to our definitive proxy statement to be filed with the SEC no later than April 30, 2013.

Equity Compensation Plan Information

The following table provides information with respect to shares of our common stock issuable under our equity compensation plans as of December 31, 2012:

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options	(b) Weighted-average exercise price of outstanding options	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders			
2002 Acacia Technologies Stock Incentive Plan(1)	313,000	$ 5.87	—
2007 Acacia Technologies Stock Incentive Plan(2)	—	—	—
Subtotal	313,000	$ 5.87	—
Equity compensation plans not approved by security holders			
Grants to New Employees Outside of the Plan(3)	—	—	—
Total	313,000	5.87	—

(1) The share reserve under the 2002 Acacia Technologies Stock Incentive Plan, or 2002 Stock Plan, automatically increased on the first trading day in January each calendar year by an amount equal to three percent (3%) of the total number of shares of our common stock outstanding on the last trading day of December in the prior calendar year, but in no event would this annual increase exceed 500,000 shares and in no event would the total number of shares of common stock in the share reserve (as adjusted for all such annual increases) exceed twenty million shares. The 2002 Stock Plan expired in December 2012. Column (a) excludes 1,361,000 in nonvested restricted stock awards and restricted stock units outstanding at December 31, 2012. Refer to Note 11 to our notes to consolidated financial statements included elsewhere herein.

(2) The initial share reserve under the 2007 Acacia Technologies Stock Incentive Plan, or the 2007 Plan, was 560,000 shares of our common stock. The share reserve under the 2007 Plan automatically increased on January 1, 2008 and 2009, by an amount equal to two percent (2%) of the total number of shares of our common stock outstanding on the last trading day of December in the prior calendar year. After January 1, 2009, no new additional shares will be added to the 2007 Plan without security holder approval (except for shares subject to outstanding awards that are forfeited or otherwise returned to the 2007 Plan). Column (a) excludes 32,000 in nonvested restricted stock awards and restricted stock units outstanding at December 31, 2012. Refer to Note 11 to our notes to consolidated financial statements included elsewhere herein.

(3) Column (a) excludes 87,000 in nonvested restricted stock awards outstanding at December 31, 2012 that were granted to new employees outside of existing approved plans, pursuant to and in accordance with applicable SEC guidelines. Refer to Note 11 to our notes to consolidated financial statements included elsewhere herein.

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

In accordance with General Instruction G(3) to Form 10-K, the information required by this Item is incorporated herein by reference to our definitive proxy statement to be filed with the SEC no later than April 30, 2013.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

In accordance with General Instruction G(3) to Form 10-K, the information required by this Item is incorporated herein by reference to our definitive proxy statement to be filed with the SEC no later than April 30, 2013.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

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

(2) Financial Statement Schedules

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

(3) Exhibits

Refer to Item 15(b) below.

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

Exhibit Number	Description
2.1	Agreement and Plan of Merger, dated November 22, 2011, by and among Acacia Research Group LLC, Apollo Patent Corp., Adaptix, Inc., and Baker Communications Fund II (QP), L.P., solely in its capacity as representative for the shareholders of Adaptix, Inc.(15)
3.1	Amended and Restated Certificate of Incorporation (1)
3.2	Amended and Restated Bylaws
10.1*	Acacia Research Corporation 1996 Stock Option Plan, as amended (2)
10.2*	Form of Option Agreement constituting the Acacia Research Corporation 1996 Executive Stock Bonus Plan (3)
10.3*	2002 Acacia Technologies Stock Incentive Plan (4)
10.4*	2007 Acacia Technologies Stock Incentive Plan (5)
10.5*	Form of Acacia Technologies Stock Option Agreement for the 2007 Acacia Technologies Stock Incentive Plan (6)
10.6*	Form of Acacia Technologies Stock Issuance Agreement for the 2002 Acacia Technologies Stock Incentive Plan (6)

10.7*	Form of Acacia Technologies Stock Issuance Agreement for the 2007 Acacia Technologies Stock Incentive Plan (6)
10.8	Office Space Lease dated January 28, 2002, between Acacia Research Corporation and The Irvine Company (7)
10.9	Form of Indemnification Agreement (8)
10.10	Third Amendment to Lease dated January 28, 2002 between Acacia Research Corporation and the Irvine Company (9)

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10.11*	Employment Agreement, dated January 28, 2005, by and between Acacia Technologies Services Corporation, and Dooyong Lee, as amended (10)
10.11.1*	Amendment to Employment Agreement, dated December 17, 2008, by and between Acacia Technologies, LLC and Dooyong Lee (13)
10.12*	Employment Agreement, dated April 12, 2004, by and between Acacia Media Technologies Corporation and Edward Treska (10)
10.12.1*	Addendum, dated March 31, 2008, to Employment Agreement by and between Acacia Media Technologies Corporation and Edward Treska (11)
10.13	Fourth Amendment to Lease dated January 28, 2002 between Acacia Research Corporation and the Irvine Company (10)
10.14	Fifth Amendment to Lease dated January 28, 2002 between Acacia Research Corporation and the Irvine Company (10)
10.15*	Employment Agreement, dated March 31, 2008, by and between Acacia Technologies, LLC and Paul Ryan (12)
10.15.1*	Amendment to Employment Agreement, dated December 17, 2008, by and between Acacia Technologies, LLC and Paul Ryan (12)
10.16*	Employment Agreement, dated March 31, 2008, by and between Acacia Technologies, LLC and Robert L. Harris (11)
10.16.1*	Amendment to Employment Agreement, dated December 17, 2008, by and between Acacia Technologies, LLC and Robert L. Harris (12)
10.17*	Amended Employment Agreement, dated March 31, 2008, by and between Acacia Technologies, LLC and Clayton J. Haynes (11)
10.17.1*	Amendment to Amended Employment Agreement, dated December 17, 2008, by and between Acacia Technologies, LLC and Clayton J. Haynes (12)
10.18*	Acacia Research Corporation Amended and Restated Executive Severance Policy (12)
10.19	Sixth Amendment to Lease dated January 28, 2002 between Acacia Research Corporation and the Irvine Company (14)
10.20	Form of Purchase Agreement (16)
18.1	Preferability Letter dated February 25, 2010 from Grant Thornton LLP, independent registered public accounting firm, regarding change in accounting principle (13)
21.1	List of Subsidiaries
23.1	Consent of Independent Registered Public Accounting Firm
24.1	Power of Attorney (included in the signature page hereto).
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934
32.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(b)/15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350
32.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(b)/15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350
101	Interactive Date Files Pursuant to Rule 405 of Regulation S-T.

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

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

(2) Incorporated by reference to Appendix A to Acacia Research Corporation's Definitive Proxy Statement on Schedule 14A filed on April 20, 2000 (File No. 000-26068).

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

(4) Incorporated by reference to Annex E to the Proxy Statement/Prospectus which