ACACIA RESEARCH CORP
Form 10-Q
November 06, 2014

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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2014
or
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM TO

Commission File Number: 0-26068

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

Large accelerated filer x	Accelerated filer o
	Smaller reporting company o

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

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

As of November 4, 2014, 50,120,699 shares of the registrant's common stock, $0.001 par value, were issued and outstanding.

ACACIA RESEARCH CORPORATION
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PART I--FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

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

	September 30, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$154,257	$126,685
Short-term investments	72,459	130,017
Accounts receivable	12,702	6,341
Deferred income taxes	3,139	3,139
Prepaid expenses and other current assets	5,794	7,546
Total current assets	248,351	273,728
Property and equipment, net of accumulated depreciation and amortization	634	766
Patents, net of accumulated amortization	269,435	288,432
Goodwill	30,149	30,149
Other assets	351	318
	$548,920	$593,393
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$16,564	$11,555
Accrued patent investment costs	4,000	4,000
Royalties and contingent legal fees payable	17,777	10,447
Total current liabilities	38,341	26,002
Deferred income taxes	3,343	4,874
Other liabilities	310	319
Total liabilities	41,994	31,195
Commitments and contingencies (Note 5)		
Stockholders' equity:		
Preferred stock, par value $0.001 per share; 10,000,000 shares authorized; no shares issued or outstanding	—	—
Common stock, par value $0.001 per share; 100,000,000 shares authorized; 50,104,675 and 49,385,057 shares issued and outstanding as of September 30, 2014 and December 31, 2013, respectively	50	49
Treasury stock, at cost, 1,729,408 shares as of September 30, 2014 and December 31, 2013	(34,640)	(34,640)
Additional paid-in capital	648,760	653,314
Accumulated comprehensive loss	(781)	(947)
Accumulated deficit	(111,851)	(62,066)
Total Acacia Research Corporation stockholders' equity	501,538	555,710
Noncontrolling interests in operating subsidiaries	5,388	6,488
Total stockholders' equity	506,926	562,198

	$548,920	$593,393

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenues	$37,192	$15,520	$99,846	$115,491
Operating costs and expenses:				
Cost of revenues:				
Inventor royalties	4,667	2,353	16,312	26,444
Contingent legal fees	7,663	2,547	16,267	21,603
Litigation and licensing expenses - patents	9,592	10,870	29,406	30,436
Amortization of patents	13,511	12,615	43,515	36,923
Marketing, general and administrative expenses (including non-cash stock compensation expense of $3,954 and $14,022 for the three and nine months ended September 30, 2014, respectively, and $9,386 and $20,812 for the three and nine months ended September 30, 2013, respectively)	11,636	18,235	36,510	45,270
Research, consulting and other expenses - business development	1,208	730	3,203	2,480
Other	1,548	3,506	1,548	3,506
Total operating costs and expenses	49,825	50,856	146,761	166,662
Operating loss	(12,633)	(35,336)	(46,915)	(51,171)
Other income (loss):				
Interest income	293	554	1,218	1,393
Net realized gain (loss) on investments	(350)	(274)	(1,362)	577
Total other income (expense)	(57)	280	(144)	1,970
Loss before (provision for) benefit from income taxes	(12,690)	(35,056)	(47,059)	(49,201)
(Provision for) benefit from income taxes	(145)	19,570	(3,462)	25,348
Net loss including noncontrolling interests in operating subsidiaries	(12,835)	(15,486)	(50,521)	(23,853)
Net (income) loss attributable to noncontrolling interests in operating subsidiaries	420	(225)	736	752
Net loss attributable to Acacia Research Corporation	$(12,415)	$(15,711)	$(49,785)	$(23,101)
Net loss attributable to common stockholders - basic	$(12,575)	$(15,904)	$(50,356)	$(23,458)
Net loss attributable to common stockholders - diluted	$(12,575)	$(15,904)	$(50,356)	$(23,458)
Basic loss per common share	$(0.26)	$(0.33)	$(1.04)	$(0.49)
Diluted loss per common share	$(0.26)	$(0.33)	$(1.04)	$(0.49)

Weighted average number of shares outstanding - basic	48,806,334	48,330,149	48,561,428	48,068,038
Weighted average number of shares outstanding - diluted	48,806,334	48,330,149	48,561,428	48,068,038
Cash dividends declared per common share	$0.125	$0.125	0.375	0.25

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net loss including noncontrolling interests in operating subsidiaries	$(12,835)	$(15,486)	$(50,521)	$(23,853)
Other comprehensive loss:				
Unrealized gain (loss) on short-term investments, net of tax of $0	(347)	149	(1,196)	(194)
Reclassification adjustment for (gains) losses included in net loss	350	(274)	1,362	577
Total other comprehensive loss	(12,832)	(15,611)	(50,355)	(23,470)
Comprehensive income attributable to noncontrolling interests	420	(225)	736	752
Comprehensive loss attributable to Acacia Research Corporation	$(12,412)	$(15,836)	$(49,619)	$(22,718)

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

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

	Nine Months Ended September 30,	
	2014	2013
Cash flows from operating activities:		
Net loss including noncontrolling interests in operating subsidiaries	$(50,521)	$(23,853)
Adjustments to reconcile net loss including noncontrolling interests in operating subsidiaries to net cash provided by (used in) operating activities:		
Depreciation and amortization	43,753	37,085
Non-cash stock compensation	14,022	20,812
Excess tax benefits from stock-based compensation	—	358
Other	(24)	(22)
Changes in assets and liabilities:		
Accounts receivable	(6,361)	(6,969)
Prepaid expenses and other assets	1,719	(5,866)
Accounts payable and accrued expenses	5,503	6,874
Royalties and contingent legal fees payable	7,330	(4,195)
Deferred taxes, net	(1,531)	(29,043)
Net cash provided by (used in) operating activities	13,890	(4,819)
Cash flows from investing activities:		
Purchases of property and equipment	(106)	(579)
Purchases of available-for-sale investments	(76,130)	(232,809)
Maturities and sales of available-for-sale investments	133,878	155,669
Investments in patents/ patent rights	(24,518)	(10,416)
Net cash provided by (used in) investing activities	33,124	(88,135)
Cash flows from financing activities:		
Distributions to noncontrolling interests in operating subsidiary	(867)	—
Dividends paid to shareholders	(18,773)	(12,392)
Contributions from noncontrolling interests in operating subsidiary	—	1,920
Repurchased restricted common stock	—	(18)
Excess tax benefits from stock-based compensation	—	(358)
Proceeds from exercises of stock options	198	301
Net cash used in financing activities	(19,442)	(10,547)
Increase (decrease) in cash and cash equivalents	27,572	(103,501)
Cash and cash equivalents, beginning	126,685	221,804
Cash and cash equivalents, ending	$154,257	$118,303

Supplemental schedule of noncash investing activities:		
Patent acquisition costs included in accrued patent acquisition costs	$2,000	$9,750

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

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

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

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

Acacia’s operating subsidiaries invest in, license and enforce patented technologies. Acacia’s operating subsidiaries partner with inventors and patent owners, applying their legal and technology expertise to patent assets to unlock the financial value in their patented inventions. Acacia is an intermediary in the patent marketplace, bridging the gap between invention and application, facilitating efficiency and delivering monetary rewards to patent owners.

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

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

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

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

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP") for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and footnotes required by accounting principles generally accepted in the United States of America in annual financial statements have been omitted or condensed in accordance with quarterly reporting requirements of the Securities and Exchange Commission (“SEC”). These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2013, as reported by Acacia in its Annual Report on Form 10-K filed with the SEC. The year end consolidated balance sheet data was derived from

audited financial statements but does not include all disclosures required by accounting principles generally accepted in the United States of America.

The condensed consolidated interim financial statements of Acacia include all adjustments of a normal recurring nature which, in the opinion of management, are necessary for a fair statement of Acacia's consolidated financial position as of September 30, 2014, and results of its operations and its cash flows for the interim periods presented. The consolidated results of operations for the three and nine months ended September 30, 2014 are not necessarily indicative of the results to be expected for the entire fiscal year.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Cost of Revenues. Cost of revenues include the costs and expenses incurred in connection with Acacia's patent licensing and enforcement activities, including inventor royalties paid to original patent owners, contingent legal fees paid to external patent counsel, other patent-related legal expenses paid to external patent counsel, licensing and enforcement related research, consulting and other expenses paid to third parties and the amortization of patent-related investment costs. These costs are included under the caption "Cost of revenues" in the accompanying consolidated statements of operations.

Inventor Royalties and Contingent Legal Expenses. Inventor royalties are expensed in the consolidated statements of operations in the period that the related revenues are recognized. In certain instances, pursuant to the terms of the underlying inventor agreements, upfront advances paid to patent owners by Acacia's operating subsidiaries are recoverable from future net revenues. Patent costs that are recoverable from future net revenues are amortized over the estimated economic useful life of the related patents, or as the prepaid royalties are earned by the inventor, as appropriate, and the related expense is included in amortization expense in the consolidated statements of operations. Any unamortized upfront advances recovered from net revenues are expensed in the period recovered, and included in amortization expense in the consolidated statements of operations.

Contingent legal fees are expensed in the consolidated statements of operations in the period that the related revenues are recognized. In instances where there are no recoveries from potential infringers, no contingent legal fees are paid; however, Acacia's operating subsidiaries may be liable for certain out of pocket legal costs incurred pursuant to the underlying legal services agreement.

Use of Estimates. The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that

affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Acacia believes that, of the significant accounting policies described herein, the accounting policies associated with revenue recognition, stock-based compensation expense, impairment of marketable securities and intangible assets, the determination of the economic useful life of amortizable intangible assets, income taxes and valuation allowances against net deferred tax assets and the application of the acquisition method of accounting for business combinations, require its most difficult, subjective or complex judgments.

Concentrations. Three licensees individually accounted for 43%, 30% and 12% of revenues recognized during the three months ended September 30, 2014, and three licensees accounted for 29%, 18% and 11% of revenues recognized during the nine months ended September 30, 2014. Three licensees individually accounted for 34%, 31% and 19% of revenues recognized during the three months ended September 30, 2013, and two licensees individually accounted for 43% and 17% of revenues recognized during the nine months ended September 30, 2013.

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

Three licensees individually represented approximately 35%, 28% and 14% of accounts receivable at September 30, 2014. Two licensees individually represented approximately 60% and 22% of accounts receivable at December 31, 2013. For the three and nine months ended September 30, 2014, 20% and 49%, respectively, of revenues were attributable to licensees domiciled in foreign jurisdictions. For the three and nine months ended September 30, 2013, 54% and 26%, respectively, of revenues were attributable to licensees domiciled in foreign jurisdictions.

Stock-Based Compensation. The compensation cost for stock-based awards is measured at the grant date, based on the fair value of the award, and is recognized as an expense, on a straight-line basis, over the employee's requisite service period (the vesting period of the equity award) which is two to four years. The fair value of restricted stock and restricted stock unit awards is determined by the product of the number of shares or units granted and the grant date market price of the underlying common stock. Stock-based compensation expense is recorded only for those awards expected to vest using an estimated forfeiture rate.

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

Level 1 - Observable Inputs: Quoted prices in active markets for identical investments;
Level 2 - Pricing Models with Significant Observable Inputs: Other significant observable inputs, including quoted prices for similar investments, interest rates, credit risk, etc.; and
Level 3 - Unobservable Inputs: Significant unobservable inputs, including the entity's own assumptions in determining the fair value of investments.

Whenever possible, the Company is required to use observable market inputs (Level 1 - quoted market prices) when measuring fair value.

Investments in Marketable Securities. Investments in securities with original maturities of greater than three months and less than one year and other investments representing amounts that are available for current operations are classified as short-term investments, unless there are indications that such investments may not be readily sold in the short term. The fair values of these investments approximate their carrying values. For the periods presented, all of Acacia's short term investments were classified as available-for-sale, which are reported at fair value on a recurring basis using observable inputs (Level 1), with related unrealized gains and losses in the value of such securities recorded as a separate component of comprehensive income (loss) in stockholders' equity until realized. Realized and unrealized gains and losses are recorded based on the specific identification method. Interest on all securities is included in interest income.

Short-term marketable securities for the periods presented were comprised of the following (in thousands):

	September 30, 2014			
Security Type	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government fixed income securities[1]	$73,224	$2	$(767)	$72,459
Total short-term investments	$73,224	$2	$(767)	$72,459

[1] Maturity dates ranging from 2014 to 2015.

December 31, 2013

Security Type	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government fixed income securities	$130,971	$21	$(975)	$130,017
Total short-term investments	$130,971	$21	$(975)	$130,017

The gross unrealized loss can be primarily attributed to a combination of market conditions as well as the demand for and duration of the U.S. government fixed income securities. The Company has the ability to hold these securities until

maturity, currently has no intent to sell, there is no requirement to sell and the Company believes that it can recover the amortized cost of these investments. The Company has found no evidence of impairment due to credit losses in its portfolio. Therefore, these unrealized losses were recorded in other comprehensive income (loss). However, the Company cannot provide any assurance that its portfolio of short-term marketable securities will not be impacted by adverse conditions in the financial markets, which may require the Company in the future to record an impairment charge for credit losses which could adversely impact its financial results.

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

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

Fair value is generally estimated using the “Income Approach,” focusing on the estimated future net income-producing capability of the patent portfolios over the estimated remaining economic useful life. Estimates of future after-tax cash flows are converted to present value through “discounting,” including an estimated rate of return that accounts for both the time value of money and investment risk factors. Estimated cash inflows are typically based on estimates of reasonable royalty rates for the applicable technology, applied to estimated market share data. Estimated cash outflows are based on existing contractual obligations, such as contingent legal fee and inventor royalty obligations, applied to estimated license fee revenues, in addition to other estimates of out-of-pocket expenses associated with a specific patent portfolio’s licensing and enforcement program. The analysis also contemplates consideration of current information about the patent portfolio including, status and stage of litigation, periodic results of the litigation process, strength of the patent portfolio, technology coverage and other pertinent information that could impact future net cash flows.

Income Taxes. Income taxes are accounted for using an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in Acacia’s consolidated financial statements or consolidated income tax returns. A valuation allowance is established to reduce deferred tax assets if all, or some portion, of such assets will more than likely not be realized, or if it is determined that there is uncertainty regarding future realizability of such assets.

The provision for (benefit from) income taxes for interim periods is determined using an estimate of Acacia’s annual effective tax rate, adjusted for discrete items, if any, that are taken into account in the relevant period. Each quarter, Acacia updates the estimate of the annual effective tax rate, and if the estimated tax rate changes, a cumulative adjustment is recorded.

The Company's effective tax rates were approximately 1% and 7% for the three and nine months ended September 30, 2014, respectively, and (56)% and (52)% for the three and nine months ended September 30, 2013, respectively. Our

effective tax rates for the three and nine months ended September 30, 2014 were lower than the U.S. federal statutory rate primarily due to the impact of foreign withholding taxes related to revenue agreements executed with third-party licensees domiciled in foreign jurisdictions and valuation allowances recorded for foreign withholding tax credits and net operating loss carryforward related tax assets generated during the three and nine months ended September 30, 2014. Valuation allowances were recorded for the 2014 periods presented due to uncertainty regarding future realizability of tax assets pursuant to guidance set forth in ASC 740, "Income Taxes." In future periods, if the Company determines it will more likely than not be able to realize certain of these amounts, the applicable portion of the benefit from the release of the valuation allowance will generally be recognized in the statement of operations in the period the determination is recorded.

The Company's effective tax rate for the three and nine months ended September 30, 2013, was mainly comprised of U.S. federal and state income tax benefits, foreign withholding taxes and certain nondeductible permanent expenses.

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

3. INCOME (LOSS) PER SHARE

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

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Numerator (in thousands):				
Basic				
Net loss	$(12,415)	$(15,711)	$(49,785)	$(23,101)
Undistributed earnings allocated to participating securities	—	—	—	—
Total dividends declared / paid	(6,260)	(6,243)	(18,773)	(12,392)
Dividends attributable to common stockholders	6,100	6,050	18,202	12,035
Net loss attributable to common stockholders – basic	$(12,575)	$(15,904)	$(50,356)	$(23,458)
Diluted				
Net loss	$(12,415)	$(15,711)	$(49,785)	$(23,101)
Undistributed earnings allocated to participating securities	—	—	—	—
Total dividends declared / paid	(6,260)	(6,243)	(18,773)	(12,392)
Dividends attributable to common stockholders	6,100	6,050	18,202	12,035
Net loss attributable to common stockholders – diluted	$(12,575)	$(15,904)	$(50,356)	$(23,458)
Denominator:				
Weighted-average shares used in computing net loss per share attributable to common stockholders – basic	48,806,334	48,330,149	48,561,428	48,068,038
Effect of potentially dilutive securities:				
Common stock options and restricted stock units	—	—	—	—
Weighted-average shares used in computing net loss per share attributable to common stockholders – diluted	48,806,334	48,330,149	48,561,428	48,068,038
Basic net loss per common share	$(0.26)	$(0.33)	$(1.04)	$(0.49)

Diluted net loss per common share	$(0.26)	$(0.33)	$(1.04)	$(0.49)

Anti-dilutive equity-based incentive awards excluded from the computation of diluted income (loss) per share were immaterial for the applicable periods presented.

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

4. PATENTS

Acacia's only identifiable intangible assets at September 30, 2014 and December 31, 2013 are patents. Patent-related accumulated amortization totaled $152,838,000 and $112,323,000 as of September 30, 2014 and December 31, 2013, respectively.

Acacia's patents have remaining estimated economic useful lives ranging from one to ten years. The weighted-average remaining estimated economic useful life of Acacia's patents is approximately six years. The following table presents the scheduled annual aggregate amortization expense as of September 30, 2014 (in thousands):

Remainder of 2014	$12,636
2015	49,110
2016	46,011
2017	44,904
2018	40,789
Thereafter	75,985
Total	$269,435

For the nine months ended September 30, 2014 and 2013, Acacia paid patent related investment costs totaling $24,518,000 (including up-front patent portfolio advances and previously accrued milestone payments related to patent related investments made in prior periods) and $10,416,000, respectively. The underlying patents have estimated economic useful lives of approximately four to ten years. Included in net additions to capitalized patent costs during the nine months ended September 30, 2014 and 2013 are accrued patent investment costs totaling $2,000,000 and $9,750,000, respectively, which are amortized over the estimated economic useful life of the related patents.

During the nine months ended September 30, 2014 and 2013, certain operating subsidiaries recovered up-front patent portfolio advances from applicable net licensing proceeds prior to the scheduled amortization of such up-front patent portfolio advances, resulting in the acceleration of amortization expense for the applicable patent related assets. Accelerated amortization expense related to the recovery of up-front patent portfolio advances totaled $1,186,000 and $593,000 for the nine months ended September 30, 2014 and 2013, respectively. During the periods presented, certain Acacia operating subsidiaries elected to terminate or sell their rights to patent portfolios, resulting in the acceleration of amortization expense for the patent-related assets totaling $2,702,000 and $1,631,000 for the nine months ended September 30, 2014 and 2013, respectively. Proceeds from the sale of patents for the nine months ended September 30, 2014 were $3,500,000.

Included in amortization of patents for the nine months ended September 30, 2014 was accelerated amortization related to the partial write-down of a patent portfolio, due to a reduction in expected estimated future net cash flows, totaling $2,565,000.

5. COMMITMENTS AND CONTINGENCIES

In February 2011, Michael Strathmann served a Complaint for Violation of the Insurance Fraud Prevention Act (California Insurance Code Section 1871.7) against Acacia, CombiMatrix Corporation, and Dr. Amit Kumar in the Superior Court of the State of California in connection with a prior lawsuit against Nanogen, Inc., that was settled. Plaintiff alleges that the defendants wrongfully made a claim for insurance coverage for the Nanogen lawsuit leading to a settlement with the insurer. The trial commenced in June 2014. We have completed post-trial briefing

and are currently awaiting a ruling by the judge. Acacia believes that there is no merit to Mr. Strathmann's claims and will continue to vigorously defend against them. However, there can be no assurance that Acacia will ultimately be successful in this matter. Acacia believes that the results of the above noted litigation will not have a material adverse effect on Acacia's financial condition, results of operations or liquidity.

Patent Enforcement and Other Litigation

Acacia is subject to claims, counterclaims and legal actions that arise in the ordinary course of business. Management believes that the ultimate liability with respect to these claims and legal actions, if any, will not have a material effect on Acacia's consolidated financial position, results of operations or cash flows.

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

Certain of Acacia's operating subsidiaries are often required to engage in litigation to enforce their patents and patent rights. In connection with any of Acacia's operating subsidiaries' patent enforcement actions, it is possible that a defendant may request and/or a court may rule that an operating subsidiary has violated statutory authority, regulatory authority, federal rules, local court rules, or governing standards relating to the substantive or procedural aspects of such enforcement actions. In such event, a court may issue monetary sanctions against Acacia or its operating subsidiaries or award attorney's fees and/or expenses to a defendant(s), which could be material.

During the three months ended September 30, 2014, a federal court decided that a lawsuit initiated in 2010 was exceptional. Additionally, in a separate matter, a federal court decided that a lawsuit initiated in 2011 was exceptional. The total amount requested by these two defendants in these two matters was $2.8 million. The respective operating subsidiaries have taken steps to challenge the amounts requested including the filing of a notice of appeal. Operating expenses for the three and nine months ended September 30, 2014 included an expense accrual for these matters totaling $1,548,000.

Operating expenses for the three and nine months ended September 30, 2013 included a one-time, non-recurring charge related to the resolution of a dispute concerning legal fees associated with a prior matter totaling $3,506,000.

6. STOCKHOLDERS' EQUITY

Cash Dividends. On April 23, 2013, Acacia announced that its Board of Directors approved the adoption of a cash dividend policy that calls for the payment of an expected total annual cash dividend of $0.50 per common share, payable in the amount of $0.125 per share per quarter. Under the policy, the Company paid quarterly cash dividends totaling $18,773,000 and $12,392,000 during the nine months ended September 30, 2014 and 2013, respectively. Future cash dividends are expected to be paid on a quarterly basis and will be at the discretion of the Company's Board of Directors.

7. SUBSEQUENT EVENTS

On October 22, 2014, Acacia announced that its Board of Directors approved a quarterly cash dividend payable in the amount of $0.125 per share. The quarterly cash dividend will be paid on November 28, 2014 to stockholders of record at close of business on November 3, 2014. Future cash dividends are expected to be paid on a quarterly basis and will be at the discretion of the Company's Board of Directors.

8. RECENT ACCOUNTING PRONOUNCEMENTS

Recent Accounting Pronouncements - Not Yet Adopted.

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

In May 2014, the FASB issued a new accounting standards update addressing revenue from contracts with customers, which clarifies existing accounting literature relating to how and when a company recognizes revenue. Under the standard, a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods and services. The amendments for this standard update are effective for interim and annual reporting periods beginning after December 15, 2016, and are to be applied
retrospectively or the cumulative effect as of the date of adoption, with early application not permitted. We are currently evaluating the impact the pronouncement will have on our consolidated financial statements and related disclosures.

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

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

Recently Adopted Accounting Pronouncements - Adopted Effective January 1, 2014.

In July 2013, the FASB issued a new accounting standard addressing when unrecognized tax benefits should be presented as reductions to deferred tax assets for net operating loss carryforwards in the financial statements. This standard is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2013. Early adoption and retrospective application is permitted. The adoption of this standard did not have a material impact on the Company’s consolidated financial statements and related disclosures.

In March 2013, the FASB issued a new accounting standard addressing the accounting for the cumulative translation adjustment when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business within a foreign entity. This standard is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2013. The adoption of this standard did not have a material impact on the Company’s consolidated financial statements and related disclosures.

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

Cautionary Statement Regarding Forward Looking Statements

You should read the following discussion and analysis in conjunction with the consolidated financial statements and related notes thereto contained in Part I, Item 1 of this Quarterly Report on Form 10-Q. The information contained in this Quarterly Report on Form 10-Q is not a complete description of our business or the risks associated with an investment in our common stock. We urge you to carefully review and consider the various disclosures made by us in this report and in our other reports filed with the Securities and Exchange Commission, or the SEC, including our Annual Report on Form 10-K for the year ended December 31, 2013, filed with the SEC on March 3, 2014.

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and concern matters that involve risks and uncertainties that could cause actual results to differ materially from those projected in the forward-looking statements. Reference is made in particular to the description of our plans and objectives for future operations, assumptions underlying such plans and objectives, and other forward-looking statements set forth under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and other sections of this Quarterly Report on Form 10-Q. Such statements may be identified by the use of forward-looking terminology such as "may," "will," "should," "could," "expect," "plan," "believe," "estimate," "ant "intend," "predict," "potential," "continue" or similar terms, variations of such terms or the negative of such terms, although not all forward-looking statements contain these terms. Such statements are based on management's current expectations and are subject to a number of factors and uncertainties, which could cause actual results to differ materially from those described in the forward-looking statements. Such statements address future events and conditions concerning intellectual property acquisition and development, licensing and enforcement activities, capital expenditures, earnings, litigation, regulatory matters, markets for our services, liquidity and capital resources and accounting matters. Actual results in each case could differ materially from those anticipated in such statements by reason of factors such as our ability to invest in new technologies and patents, future global economic conditions, changes in demand for our services, legislative, regulatory and competitive developments in markets in which we and our subsidiaries operate, results of litigation and other circumstances affecting anticipated revenues and costs. We expressly disclaim any intent, obligation or undertaking to update or revise any forward-looking statements contained herein to conform such statements to actual results or to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. Readers are urged to carefully review and consider the various disclosures made by us, which attempt to advise interested parties of the risks, uncertainties, and other factors that affect our business, including without limitation the disclosures made under the captions "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Financial Statements" in this Quarterly Report on Form 10-Q and the audited consolidated financial statements and notes thereto and disclosures made under the captions "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Risk Factors" and "Financial Statements and Supplementary Data" included in our Annual Report on Form 10-K for the year ended December 31, 2013.

General

As used in this Quarterly Report on Form 10-Q, "we," "us" and "our" refer to Acacia Research Corporation, a Delaware corporation, and/or its wholly and majority-owned and controlled operating subsidiaries, and/or where applicable, its management. All intellectual property acquisition, development, licensing and enforcement activities are conducted solely by certain of Acacia Research Corporation's wholly and majority-owned and controlled operating subsidiaries.

Our operating subsidiaries invest in, license and enforce patented technologies. Our operating subsidiaries partner with inventors and patent owners, applying our legal and technology expertise to patent assets to unlock the financial

value in their patented inventions. We are an intermediary in the patent marketplace, bridging the gap between invention and application, facilitating efficiency and delivering monetary rewards to patent owners.

Our operating subsidiaries generate revenues and related cash flows from the granting of patent rights for the use of patented technologies that our operating subsidiaries control or own. Our operating subsidiaries assist patent owners with the prosecution and development of their patent portfolios, the protection of their patented inventions from unauthorized use, the generation of licensing revenue from users of their patented technologies and, where necessary, with the enforcement against unauthorized users of their patented technologies through the filing of patent infringement litigation.

We are a leader in licensing patented technologies and have established a proven track record of licensing success with over 1,400 license agreements executed to date, across 176 of our patent licensing and enforcement programs. Currently, on a

consolidated basis, our operating subsidiaries own or control the rights to over 200 patent portfolios, which include U.S. patents and certain foreign counterparts, covering technologies used in a wide variety of industries.

Executive Summary

During the periods presented, we continued our business of empowering patent owners and rewarding invention by providing a path to patent monetization for the people and companies who have contributed valuable patented inventions to an industry, but who require a professional, experienced independent third-party licensing partner to get rewarded for those inventions.

Our operating activities for the periods presented were principally focused on the continued investment in and development of our patent licensing and enforcement business, including the continued pursuit of our ongoing patent licensing and enforcement programs and the commencement of new patent licensing and enforcement programs. In addition, we continued our focus on business development, including the acquisition of several additional high quality patent portfolios by certain of our operating subsidiaries and the continued pursuit of additional opportunities to partner with patent owners or invest in patent portfolios, and continue our industry leading patent licensing and enforcement activities.

For the three months ended September 30, 2014, we reported revenues of $37.2 million from 20 new revenue agreements covering 20 different licensing programs, including 3 licensing programs generating initial revenues in the quarter. Cash and investments totaled $226.7 million as of September 30, 2014 as compared to $256.7 million as of December 31, 2013.

During the three months ended September 30, 2014, we made patent related payments and milestone payments to patent owners, with whom we partnered for the licensing of their patented technologies, totaling $2.4 million.

Operating activities during the periods presented included the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenues (in thousands)	$37,192	$15,520	$99,846	$115,491
New agreements executed	20	24	55	96
Licensing and enforcement programs generating revenues	20	24	37	47
Licensing and enforcement programs with initial revenues	3	5	10	19
New patent portfolios	—	6	4	22
Cumulative number of licensing and enforcement programs generating revenues - inception to date	176	162	176	162

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

As of Date:	Trailing Twelve -Month Revenues	% Change

September 30, 2014	$114,911	23	%
June 30, 2014	$93,239	41	%
March 31, 2014	$66,273	(49	)%
December 31, 2013	$130,556	(28	)%
September 30, 2013	$181,755	—	%

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

- the dollar amount of agreements executed each period, which can be driven by the nature and characteristics of the technology or technologies being licensed and the magnitude of infringement associated with a specific licensee;
- the specific terms and conditions of agreements executed each period including the nature and characteristics of rights granted, and the periods of infringement or term of use contemplated by the respective payments;
- fluctuations in the total number of agreements executed each period;
- the timing, results and uncertainties associated with patent licensing negotiations, mediations, patent infringement actions, trial dates and other enforcement proceedings relating to our patent licensing and enforcement programs;
- the relative maturity of licensing programs during the applicable periods; and
- other external factors, including the periodic status or results of ongoing negotiations, the status of ongoing litigations, actual or perceived shifts in the regulatory environment, impact of unrelated patent related judicial proceedings and other macroeconomic factors.

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

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.

Going forward, we have strategically chosen to shift the focus of our operating business to increasingly serve a smaller number of customers each having higher quality patent portfolios. High quality patent portfolios are typically associated with higher numbers of varied defensible claims, higher revenue potential, originating from high-pedigreed patent owners and/or possessing a relatively large number of prospective licensees. In this regard, in 2014, we have continued the shift in our focus at our point of patent intake from quantity to quality.

We continue to identify and assess additional opportunities to partner with companies in the technology, energy, medical technology and other sectors for the licensing and enforcement of their high quality patented technologies, and are also expanding our activity in international markets, both of which we expect will expand and diversify our future revenue generating opportunities.

Revenues for the nine months ended September 30, 2014 included fees from the following technology licensing and enforcement programs:

- 3G & 4G Wireless Patents
- 4G Wireless technology
- Audio Communications Fraud Detection technology
- Broadband Communications Technology
- Computer Aided Design Tools technology
- Computer-Aided Design technology[1]
- Core Fiber Optic Network Architectures technology
- DMT technology
- Electronic Access Control technology[1]
- Gas Modulation Control Systems technology
- Online Gaming technology
- Online newsletters with links technology
- Optical Networking technology
- Radio Frequency Modulation technology[1]
- Reflective and Radiant Barrier Insulation technology
- Semiconductor Packaging technology
- Software Activation technology
- Software Technology
- Speech codes used in wireless and wireline systems[1]
- Spinning and Jousting Toy Game Technology[1][2]

- Improved Lighting technology
- Innovative Display technology[1]
- Interstitial and Pop-Up Internet Advertising technology
- Location Based Services technology
- Super Resolutions Microscopy technology[1]
- Suture Anchors technology
- Telematics technology
- Video Analytics for Security technology

- Mobile Computer Synchronization technology
- Multi-Display Content Delivery and Data Aggregation technology[1]
- Online Auction Guarantee technology
- Wireless Location Based Services technology
- Wireless Monitoring technology

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(1) Initial revenues recognized during the nine months ended September 30, 2014
(2) Initial revenues recognized during the three months ended September 30, 2014

Revenues for the nine months ended September 30, 2013 included fees from the following technology licensing and enforcement programs:

- 3G & 4G Wireless Handsets technology[1]
- Audio Communications Fraud Detection technology
- Automotive Safety, Navigation and Diagnostics technology
- Broadband Communications technology[1]
- Business Process Modeling technology
- Camera Support technology
- Catheter Ablation technology[1]
- Computer Architecture and Power Management technology
- Core Fiber Optic Network Architectures technology[1][2]
- Digital Imaging technology[1]
- Digital Signal Processing Architecture technology
- DMT technology
- Domain Name Redirection technology
- Dynamic Transmissions technology[1][2]
- Electronic spreadsheet, data analysis and software development technology[1]
- Facilities Operation Management System technology
- Gas Modulation Control Systems technology[1]
- Greeting Card technology[1]
- Improved Memory Manufacturing technology
- Information Portal Software technology
- Information Storage, Searching & Retrieval technology
- Intercarrier SMS technology[1]
- Interstitial and Pop-Up Internet Advertising technology
- Lighting Ballast technology
- Location Based Services technology
- Memory Circuit and Packaging technology[1]
- Messaging technology
- Mobile Computer Synchronization technology
- Mobile Enhancement Solutions technology
- NOR Flash technology
- Online Auction Guarantees technology
- Online Gaming technology
- Online newsletters with links technology
- Optical Networking technology[1][2]
- Power Management within Integrated Circuits technology
- Prescription Lens technology[1]
- Reflective and Radiant Barrier Insulation technology[1][2]
- Semiconductor Memory and Process technology[1]
- Semiconductor Packaging technology[1]
- Surgical Access technology
- Suture Anchors technology
- Telematics technology
- User Programmable Engine Control technology
- Video Analytics for Security technology
- Web Collaboration technology[1][2]
- Wireless Data Synchronization & Data Transfer technology[1]
- Wireless Location Based Services technology[1]

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(1) Initial revenues recognized during the nine months ended September 30, 2013
(2) Initial revenues recognized during the three months ended September 30, 2013

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Summary of Results of Operations - Overview
For the Three and Nine Months Ended September 30, 2014 and 2013
(In thousands, except percentage change values)

	Three Months Ended September 30,		%	Nine Months Ended September 30,		%
	2014	2013	Change	2014	2013	Change
Revenues	$37,192	$15,520	140 %	$99,846	$115,491	(14)%
Operating costs and expenses	49,825	50,856	(2)%	146,761	166,662	(12)%
Operating loss	(12,633)	(35,336)	(64)%	(46,915)	(51,171)	(8)%
Loss before (provision for) benefit from income taxes	(12,690)	(35,056)	(64)%	(47,059)	(49,201)	(4)%
(Provision for) benefit from income taxes	(145)	19,570	(101)%	(3,462)	25,348	(114)%
Net loss attributable to Acacia Research Corporation	(12,415)	(15,711)	(21)%	(49,785)	(23,101)	116 %

Overview - Three months ended September 30, 2014 compared with the three months ended September 30, 2013

- Revenues increased $21.7 million, or 140%, to $37.2 million, as compared to $15.5 million in the comparable prior year quarter, due primarily to an increase in the average revenue per agreement.

- Loss before income taxes decreased 64%, to $12.7 million, as compared to $35.1 million in the comparable prior year quarter, due primarily to a 140% increase in revenues and a 36% decrease in marketing, general and administrative expenses.

- Cost of Revenues and Other Operating Expenses:

- Inventor royalties and contingent legal fees, on a combined basis, increased $7.4 million, or 152%, relatively consistent with the 140% increase in related revenues for the same periods.

- Litigation and licensing expenses-patents decreased $1.3 million, or 12%, to $9.6 million, due primarily to a net decrease in litigation support and third-party technical consulting expenses associated with ongoing and new licensing and enforcement programs commenced since the end of the comparable prior year quarter.

- Amortization of patents increased $896,000, or 7%, to $13.5 million, due primarily to accelerated patent amortization related to recoupable up-front patent portfolio acquisition costs recovered from related net licensing proceeds totaling $874,000 and an increase in quarterly amortization expense for patent portfolios acquired since the end of the prior year period totaling $1.2 million. The increase was partially offset by a $791,000 decrease in accelerated amortization related to patent portfolio sales.

- The effective tax rates for the three months ended September 30, 2014 and 2013 were 1% and (56)%, respectively. The effective rate for the third quarter of 2014 reflects the impact of valuation allowances recorded for current period net operating loss carryforward related tax assets generated during the three months ended September 30, 2014. The tax benefit recorded for the three months ended September 30, 2013 reflects the realization of foreign tax credit and net operating loss carryforward related tax assets generated during the period.

Overview - Nine months ended September 30, 2014 compared with the nine months ended September 30, 2013

- Revenues decreased $15.6 million, or 14%, to $99.8 million, as compared to $115.5 million in the comparable prior year period, due primarily to a decrease in the total number of agreements executed, offset by an increase in the average revenue per agreement.

- Loss before income taxes decreased 4%, to $47.1 million, as compared to $49.2 million in the comparable prior year period, due primarily to a 14% decrease in revenues, partially offset by a 32% decrease in inventor royalties and contingent legal fees, on a combined basis.

- Cost of Revenues and Other Operating Expenses:

  - Inventor royalties and contingent legal fees, on a combined basis, decreased $15.5 million, or 32%, as compared to the 14% decrease in related revenues for the same periods due primarily to a higher percentage of revenues generated during the nine months ended September 30, 2014 having no inventor royalty obligations and lower overall average inventor royalty and contingent legal fee rates, as compared to the revenues generated during the nine months ended September 30, 2013.

  - Litigation and licensing expenses-patents decreased $1.0 million, or 3%, to $29.4 million, relatively consistent with the comparable prior year period.

  - Amortization of patents increased $6.6 million, or 18%, to $43.5 million, due primarily to accelerated amortization related to patent portfolio write-downs totaling $2.6 million, an increase in scheduled amortization expense for patent portfolios invested in since the end of the prior period totaling $2.6 million and a net increase in accelerated amortization related to patent portfolio sales and terminations totaling $1.1 million.

  - Marketing, general and administrative expenses decreased $8.8 million, or 19%, to $36.5 million, due primarily to a net decrease in non-cash stock compensation charges, a decrease in non-recurring CEO retirement and other employee severance costs and an overall reduction in personnel costs due to staff reductions completed in the first quarter of 2014.

- The effective tax rates for the nine months ended September 30, 2014 and 2013 were 7% and (52%), respectively. Tax expense for the nine months ended September 30, 2014 reflects the impact of foreign withholding taxes and valuation allowances recorded for the majority of net operating loss and other tax assets generated during the period. The tax benefit recorded for the nine months ended September 30, 2013 reflects the realization of foreign tax credit and net operating loss carryforward related tax assets generated during the period.

Investments in Patent Portfolios

We also measure and assess the performance and growth of the patent licensing and enforcement businesses conducted by our operating subsidiaries based on patent portfolio partnering / intake opportunities closed by our operating subsidiaries on a consolidated basis during the applicable reporting periods. During the nine months ended September 30, 2014, patent portfolio intake activities included the following:

- In February 2014, we partnered with a leading research institute to monetize the institute’s patents relating to ceramics and associated manufacturing processes for medical devices.

- In March 2014, we invested in U.S. patents and foreign counterparts related to the use of shared memory in multimedia processing systems such as mobile phones, tablets and other consumer electronic devices.

- In April 2014, we partnered with a leading semiconductor company on patents related to high speed digital display interface technology used in industry standards such as DisplayPort and DisplayPort-related technologies and also MIPI DSI.

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In June 2014, we announced that Renesas Electronics Corporation, a premier supplier of advanced semiconductor solutions, and Acacia agreed to a new phase in their strategic patent licensing alliance. Pursuant to this new agreement, we will receive broad and lengthy access to the worldwide patent portfolio of Renesas Electronics.

Refer to “Liquidity and Capital Resources” below for information regarding the impact on the consolidated financial statements of upfront advances and milestone payments made in connection with patent partnering and investment activities during the periods presented.

As of September 30, 2014, certain of our operating subsidiaries had several patent partnering option agreements with third-party patent portfolio owners regarding potential additional patent portfolio partnering / investment opportunities. Future

patent portfolio intake arrangements will continue to expand and diversify our future revenue generating opportunities. Our operating subsidiaries are principals in the licensing and enforcement effort, obtaining control of the rights in the patent portfolio, or control of the patent portfolio outright.

Patent Licensing and Enforcement

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

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

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

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

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

- The complexity of negotiations and potential magnitude of exposure for potential infringers associated with higher quality patent portfolios may lead to increased intervals of time between the filing of litigation and potential revenue events (i.e. markman dates, trial dates), which may lead to increased legal expenses, consistent with the higher revenue potential of such portfolios.

Critical Accounting Estimates

Our unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. Preparation of these consolidated statements requires management to make judgments and estimates. Some accounting policies have a significant impact on amounts reported in these consolidated financial statements. A summary of significant accounting policies and a description of accounting policies that are considered critical may be found in the audited consolidated financial statements and notes thereto and under the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies” included in our Annual Report on Form 10-K for the year ended December 31, 2013. Refer to Note 2 to the consolidated financial statements included in this report.

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Consolidated Results of Operations

Comparison of the Results of Operations for the Three and Nine Months Ended September 30, 2014 and 2013

Revenues and Pretax Net Loss

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2014	2013	$	%	2014	2013	$	%
Revenues (in thousands, except percentage change values)	$37,192	$15,520	$21,672	140 %	$99,846	$115,491	$(15,645)	(14)%
New agreements executed	20	24	-	-	55	96	-	-
Average revenue per agreement (in thousands)	$1,860	$647	-	-	$1,815	$1,203	-	-

A reconciliation of the change in revenues (based on average revenue per agreement) for the periods presented, in relation to the revenues reported for the comparable prior year period, is as follows:

	Three Months Ended September 30, 2014 vs. 2013	Nine Months Ended September 30, 2014 vs. 2013
	(in thousands)	
Decrease in number of agreements executed	$(2,587)	$(49,324)
Increase in average revenue per agreement executed	24,259	33,679
Total change in revenues	$21,672	$(15,645)

Three licensees individually accounted for 43%, 30% and 12% of revenues recognized during the three months ended September 30, 2014, and three licensees accounted for 29%, 18% and 11% of revenues recognized during the nine months ended September 30, 2014. Three licensees individually accounted for 34%, 31% and 19% of revenues recognized during the three months ended September 30, 2013, and two licensees individually accounted for 43% and 17% of revenues recognized during the nine months ended September 30, 2013.

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2014	2013	$	%	2014	2013	$	%
	(in thousands, except percentage change values)							
Loss before (provision for) benefit from income taxes	$(12,690)	$(35,056)	$22,366	(64)%	$(47,059)	$(49,201)	$2,142	(4)%

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

	Three Months Ended September 30, 2014 vs. 2013	%	Nine Months Ended September 30, 2014 vs. 2013	%
	(in thousands, except percentage values)			
Increase (decrease) in revenues	$21,672	97 %	$(15,645)	(730)%
(Increase) decrease in inventor royalties and contingent legal fees combined	(7,430)	(33)%	15,468	722 %
Decrease in marketing, general and administrative expenses	6,599	30 %	8,760	409 %
Decrease in litigation and licensing expenses	1,278	6 %	1,030	48 %
(Increase) in patent amortization expenses	(896)	(4)%	(6,592)	(308)%
Other	1,143	4 %	(879)	(41)%
Total decrease in loss before (provision for) benefit from income taxes	$22,366	100 %	$2,142	100 %

Cost of Revenues

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2014	2013	$	%	2014	2013	$	%
	(in thousands, except percentage change values)							
Inventor royalties	$4,667	$2,353	$2,314	98 %	$16,312	$26,444	$(10,132)	(38)%
Contingent legal fees	7,663	2,547	5,116	201 %	16,267	21,603	(5,336)	(25)%
Total	$12,330	$4,900	$7,430	152 %	$32,579	$48,047	$(15,468)	(32)%

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

	Three Months Ended September 30, 2014 vs. 2013	%	Nine Months Ended September 30, 2014 vs. 2013	%
Inventor Royalties:				
Increase (decrease) in total revenues	$6,069	262 %	$(4,048)	40 %
Decrease in inventor royalty rates	(4,067)	(176)%	(4,230)	42 %
Increase (decrease) in percentage of revenues without inventor royalty obligations	312	14 %	(1,854)	18 %
Total change in inventor royalties expense	$2,314	100 %	$(10,132)	100 %
Contingent Legal Fees:				
Increase (decrease) in total revenues	$3,680	72 %	$(3,062)	57 %
Increase (decrease) in contingent legal fee rates	1,351	26 %	(2,360)	44 %
Increase in percentage of revenues without contingent legal fee obligations	85	2 %	86	(1)%
Total change in contingent legal fees expense	$5,116	100 %	$(5,336)	100 %

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	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2014	2013	$	%	2014	2013	$	%
	(in thousands, except percentage change values)							
Litigation and licensing expenses - patents	$9,592	$10,870	$(1,278)	(12)%	$29,406	$30,436	$(1,030)	(3)%
Amortization of patents	13,511	12,615	$896	7%	43,515	36,923	$6,592	18%

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 for the three month periods presented decreased due primarily to a net decrease in litigation support, third-party technical consulting costs associated with ongoing and new licensing and enforcement programs commenced since the end of the comparable prior year quarter. Litigation and licensing expenses-patents remained relatively consistent for the nine month periods presented. We expect patent-related legal expenses to continue to fluctuate period to period as we incur increased costs related to upcoming scheduled and/or anticipated trial dates, international enforcement activities and strategic patent portfolio prosecution activities over the next several fiscal quarters, as we continue to focus on our investments in these areas.

Amortization of Patents. The change in amortization expense for the comparable periods presented was due to the following:

	Three Months Ended September 30, 2014 vs. 2013	%	Nine Months Ended September 30, 2014 vs. 2013	%
	(in thousands, except percentage values)			
Amortization of patent portfolios obtained since the end of the comparable prior year period	$1,153	129%	$2,642	40%
Increase (decrease) in accelerated amortization related to patent portfolio sales and terminations	(791)	(88)%	1,071	16%
Partial patent portfolio write-down	—	—%	2,565	39%
Decrease in scheduled amortization related to patent portfolio investments made prior to the current period	(340)	(38)%	(279)	(4)%
Increase in accelerated amortization related to recovery of upfront advances	874	97%	593	9%
Total change in patent amortization expense	$896	100%	$6,592	100%

Included in amortization of patents for the nine months ended September 30, 2014 was accelerated amortization related to the partial write-down of a patent portfolio, due to a reduction in expected estimated future net cash flows, totaling $2,565,000.

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Operating Expenses (in thousands, except percentage change values)

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2014	2013	$	%	2014	2013	$	%
Marketing, general and administrative expenses	$7,682	$8,849	$(1,167)	(13)%	$22,488	$24,458	$(1,970)	(8)%
Non-cash stock compensation expense	3,954	9,386	(5,432)	(58)%	14,022	20,812	(6,790)	(33)%
Total marketing, general and administrative expenses	$11,636	$18,235	$(6,599)	(36)%	$36,510	$45,270	$(8,760)	(19)%

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

	Three Months Ended September 30, 2014 vs. 2013	%	Nine Months Ended September 30, 2014 vs. 2013	%
	(in thousands, except percentage values)			
Licensing, business development, engineering and other personnel costs	$(312)	5%	$(773)	9%
Variable performance-based compensation costs and other corporate, general and administrative costs	453	(7)%	(223)	3%
Corporate, general and administrative costs	(94)	1%	(316)	4%
Non-cash stock compensation expense	(3,609)	55%	(4,967)	57%
Non-recurring employee severance costs	(1,214)	18%	(658)	7%
Nonrecurring non-cash stock compensation - CEO retirement package	(1,823)	28%	(1,823)	20%
Total change in marketing, general and administrative expenses	$(6,599)	100%	$(8,760)	100%

Other Operating Expenses

During the three months ended September 30, 2014, a federal court decided that a lawsuit initiated in 2010 was exceptional. Additionally, in a separate matter, a federal court decided that a lawsuit initiated in 2011 was exceptional. The total amount requested by these two defendants in these two matters was $2.8 million.. The respective operating subsidiaries have taken steps to challenge the amounts requested including the filing of a notice of appeal. Operating expenses for the three and nine months ended September 30, 2014 included an expense accrual for these matters totaling $1,548,000.

Operating expenses for the three and nine months ended September 30, 2013 included a one-time, non-recurring charge related to the resolution of a dispute concerning legal fees associated with a prior matter totaling $3,506,000.

Income Taxes

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
(Provision for) benefit from income taxes (in thousands)	$(145)	$19,570	$(3,462)	$25,348
Effective tax rate	1%	(56)%	7%	(52)%

(Provision for) Benefit from Income Taxes. Tax (expense) benefit for the periods presented included the impact of the following:

- Tax expense for the three and nine months ended September 30, 2014 reflects the impact of foreign taxes withheld related to revenue agreements executed with third-party licensees domiciled in certain foreign jurisdictions and valuation allowances recorded for current period foreign withholding tax credits and net operating loss carryforward related tax assets generated during the respective periods.

- Our effective tax rates for the three and nine months ended September 30, 2013 were mainly comprised of U.S. federal and state income tax benefits and nondeductible permanent expenses. The benefit for income taxes for three and nine months ended September 30, 2013 reflects realization of foreign tax credit and net operating loss carryforward related tax benefits generated in the respective 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 previous equity financings.

Our management believes that our cash and cash equivalent balances, investments and anticipated cash flows from operations will be sufficient to meet our cash requirements through at least November 2015 and for the foreseeable future. We may, however, encounter unforeseen difficulties that may deplete our capital resources more rapidly than anticipated, including those set forth under the caption “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2013. Any efforts to seek additional funding could be made through issuances of equity or debt, or other external financing. However, additional funding may not be available on favorable terms, or at all. The capital and credit markets have experienced extreme volatility and disruption since late 2007, and the volatility and impact of the disruption has continued into 2014. At times during this period, the volatility and disruption has reached unprecedented levels. In several cases, the markets have exerted downward pressure on stock prices and credit capacity for certain issuers, and the commercial paper markets may not be a reliable source of short-term financing for us. If we fail to obtain additional financing when needed, we may not be able to execute our business plans and our business, conducted by our operating subsidiaries, may suffer.

Certain of Acacia’s operating subsidiaries are often required to engage in litigation to enforce their patents and patent rights. In connection with any of Acacia’s operating subsidiaries’ patent enforcement actions, it is possible that a defendant may request and/or a court may rule that an operating subsidiary has violated statutory authority, regulatory authority, federal rules, local court rules, or governing standards relating to the substantive or procedural aspects of such enforcement actions. In such event, a court may issue monetary sanctions against Acacia or its operating subsidiaries or award attorney’s fees and/or expenses to a defendant(s), which could be material.

Cash, Cash Equivalents and Investments

Our consolidated cash and cash equivalents and investments on hand totaled $226.7 million at September 30, 2014, compared to $256.7 million at December 31, 2013. The net change in cash and cash equivalents for the periods presented was comprised of the following (in thousands):

	Nine Months Ended September 30,	
	2014	2013

Net cash provided by (used in):		
Operating activities	$13,890	$(4,819)
Investing activities	33,124	(88,135)
Financing activities	(19,442)	(10,547)

Cash Flows from Operating Activities. Cash receipts from licensees for the nine months ended September 30, 2014 decreased 13%, to $93.5 million, as compared to $107.9 million in the comparable 2013 period, primarily reflecting the net decrease in revenues for the same periods, as discussed above. Cash outflows from operations for the nine months ended September 30, 2014 decreased 5%, to $79.6 million, as compared to $83.6 million in the comparable 2013 period, primarily due to the net impact of the timing of cash receipts from licensees and related payments of inventor royalties and contingent

legal fees, and the timing of payments to other third-parties in the ordinary course, for the same periods. Refer to "Working Capital" below for additional information.

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

	Nine Months Ended September 30,	
	2014	2013
Purchases of property and equipment	$(106)	$(579)
Available-for-sale investments, net	57,748	(77,140)
Investments in patents/ patent rights	(24,518)	(10,416)
Net cash provided by (used in) investing activities	$33,124	$(88,135)

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

	Nine Months Ended September 30,	
	2014	2013
Dividends paid to shareholders	$(18,773)	$(12,392)
Distributions to noncontrolling interests in operating subsidiary	(867)	—
Contributions from noncontrolling interests in operating subsidiary	—	1,920
Repurchased restricted common stock	—	(18)
Excess tax benefits from stock-based compensation	—	(358)
Proceeds from exercises of stock options	198	301
Net cash used in financing activities	$(19,442)	$(10,547)

On April 23, 2013, we announced that our Board of Directors approved the adoption of a cash dividend policy that calls for the payment of an expected total annual cash dividend of $0.50 per common share, payable in the amount of $0.125 per share per quarter. Under the policy, we paid cash dividends totaling $18.8 million and $12.4 million during the nine months ended September 30, 2014 and 2013, respectively.

Working Capital

Working capital at September 30, 2014 decreased to $210.0 million, compared to $247.7 million at December 31, 2013. Consolidated accounts receivable from licensees increased to $12.7 million at September 30, 2014, compared to $6.3 million at December 31, 2013. Consolidated royalties and contingent legal fees payable increased to $17.8 million at September 30, 2014, compared to $10.4 million at December 31, 2013.

The majority of accounts receivable from licensees at September 30, 2014 were collected or scheduled to be collected in the fourth quarter of 2014, in accordance with the terms of the related underlying agreements. The majority of royalties and contingent legal fees payable are scheduled to be paid in the fourth quarter of 2014 or first quarter of 2015, subsequent to receipt by us of the related fee payments from licensees, in accordance with the underlying contractual arrangements.

Off-Balance Sheet Arrangements

We have not entered into off-balance sheet financing arrangements, other than operating leases. We have no significant commitments for capital expenditures in 2014. We have no lines of credit or other committed funding or long-term debt. The following table lists our known contractual obligations and future cash commitments as of September 30, 2014 (in thousands):

	Payments Due by Period (In thousands)				
Contractual Obligations	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Operating leases	$8,560	$253	$3,303	$3,168	$1,836
Scheduled patent acquisition related payments	4,000	4,000	—	—	—
Total contractual obligations	$12,560	$4,253	$3,303	$3,168	$1,836

Uncertain Tax Positions. At September 30, 2014, we had total unrecognized tax benefits of approximately $857,000, 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 September 30, 2014. If recognized, approximately $857,000 would impact our effective tax rate. We do not expect that the liability for unrecognized tax benefits will change significantly within the next 12 months. There was no activity related to the gross unrecognized tax benefits for the periods presented.

Recent Accounting Pronouncements

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

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

At September 30, 2014, our short-term investments were comprised of AAA-rated money market funds that invest in first-tier only securities, which primarily include domestic commercial paper, securities issued or guaranteed by the U.S. government or its agencies, U.S. bank obligations, and fully collateralized repurchase agreements (included in cash and cash equivalents in the accompanying consolidated balance sheets) and direct investments in highly liquid, AAA-rated, U.S. government securities.

In general, money market funds are not subject to market risk because the interest paid on such funds fluctuates with the prevailing interest rate. Accordingly, a 100 basis point increase in interest rates or a 10% decline in the value of the United States equity markets would not be expected to have a material impact on the value of such money market funds. Investments in U.S. government fixed income securities are subject to interest rate risk and will decline in value if interest rates increase. However, due to the relatively short duration of our investment portfolio, an immediate 10% change in interest rates would have no material impact on our financial condition, results of operations or cash flows. Declines in interest rates over time will, however, reduce our interest income.

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures.

Our management, with the participation and under the supervision of our chief executive officer and chief financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended, or the Exchange Act) as of the end of the period covered by this quarterly report. Based on that evaluation, our chief executive officer and our chief financial officer have concluded that our disclosure controls and procedures were effective as of the end of the period covered by this quarterly report to ensure that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and

communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure, and that such information is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

Changes in Internal Control Over Financial Reporting.

There were no changes in our internal control over financial reporting that occurred during our last fiscal quarter (the quarter ended September 30, 2014) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls.

Our management, including our chief executive officer and chief financial officer, does not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system’s objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been detected. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of the effectiveness of controls to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

PART II--OTHER INFORMATION

Item 6. EXHIBITS

EXHIBIT NUMBER	EXHIBIT
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934
32.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(b)/15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350
32.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(b)/15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350
101	Interactive Data Files Pursuant to Rule 405 of Regulation S-T

SIGNATURES

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

ACACIA RESEARCH CORPORATION

/s/ Matthew Vella
By: Matthew Vella
Chief Executive Officer and President
(Principal Executive Officer and Duly Authorized Signatory)

/s/ Clayton J. Haynes
By: Clayton J. Haynes
Chief Financial Officer and Treasurer
(Principal Financial and Accounting Officer)

Date: November 5, 2014

EXHIBIT INDEX

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32.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(b)/15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350
101	Interactive Data Files Pursuant to Rule 405 of Regulation S-T.