

ACACIA RESEARCH CORP
Form 10-Q
May 08, 2007

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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2007

Commission File Number 0-26068

ACACIA RESEARCH CORPORATION
(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

95-4405754
(I.R.S. Employer
Identification No.)

500 Newport Center Drive, Newport Beach, CA
(Address of Principal Executive Offices)

92660
(Zip Code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

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

As of May 2, 2007, 28,470,089 shares of Acacia Research-Acacia Technologies common stock were issued and outstanding. As of May 2, 2007 52,788,838 shares of Acacia Research-CombiMatrix common stock were issued and outstanding.

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*NOTE: We are presenting the Acacia Research Corporation consolidated unaudited interim financial statements and the separate unaudited interim financial statements for the Acacia Technologies group and the CombiMatrix group. The separate financial statements and accompanying notes of the two groups are being provided as additional disclosure regarding the financial performance of the two divisions and to provide investors with information regarding the potential value and operating results of the respective businesses, which may affect the respective share values. The separate financial statements should be reviewed in conjunction with Acacia Research Corporation's consolidated financial statements and accompanying notes. The presentation of separate financial statements is not intended to indicate that we have changed the title to any of our assets or changed the responsibility for any of our liabilities, nor is it intended to indicate that the rights of our creditors have been changed. Acacia Research Corporation, and not the individual groups, is the issuer of the securities. Holders of the two securities are stockholders of Acacia Research Corporation and do not have a separate and exclusive interest in the respective groups.

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

	March 31, 2007	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 44,016	\$ 40,044
Short-term investments	19,694	19,296
Accounts receivable	2,838	874
Prepaid expenses, inventory, and other assets	2,105	1,792
Total current assets	68,653	62,006
Property and equipment, net of accumulated depreciation		
	1,885	2,006
Patents and licenses, net of accumulated amortization	24,311	25,807
Goodwill	17,039	17,039
Other assets	2,479	2,746
	\$ 114,367	\$ 109,604

**LIABILITIES AND STOCKHOLDERS'
EQUITY**

Current liabilities:		
Accounts payable and accrued expenses	\$ 5,379	\$ 5,047
Royalties and legal fees payable	3,889	1,684
Current portion of deferred revenues	736	725
Total current liabilities	10,004	7,456
Deferred revenues, net of current portion	1,014	1,076
Warrant liability	4,355	6,732
Other liabilities	81	31
Total liabilities	15,454	15,295

Commitments and contingencies (Note 7)

Redeemable stockholders' equity:

Preferred stock

Acacia Research Corporation, par value \$0.001 per share; 10,000,000 shares authorized; no shares issued or outstanding

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Common stock

Acacia Research - Acacia Technologies stock, par value \$0.001 per share; 100,000,000

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shares authorized; 28,407,178 and 28,231,701 shares issued and outstanding as of March 31, 2007 and December 31, 2006, respectively	28	28
Acacia Research - CombiMatrix stock, par value \$0.001 per share; 100,000,000 shares authorized; 52,788,838 and 50,365,810 shares issued and outstanding as of March 31, 2007 and December 31, 2006, respectively	53	50
Additional paid-in capital	328,953	326,599
Accumulated comprehensive income	3	2
Accumulated deficit	(230,124)	(232,370)
Total stockholders' equity	98,913	94,309
	\$ 114,367	\$ 109,604

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

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

	For the Three Months Ended	
	March 31, 2007	March 31, 2006
Revenues:		
License fees	\$ 25,185	\$ 4,717
Government contracts	549	264
Products	440	924
Service contracts	148	57
Total revenues	26,322	5,962
Operating expenses:		
Cost of government contract revenues	534	250
Cost of product sales	303	221
Research and development expenses (including non-cash stock compensation expense of \$258 in 2007 and \$293 in 2006)	1,848	2,379
Marketing, general and administrative expenses (including non-cash stock compensation expense of \$980 in 2007 and \$1,450 in 2006)	6,851	7,449
Legal expenses - patents	1,367	366
Inventor royalties and contingent legal fees expense - patents	14,122	2,271
Amortization of patents and royalties	1,634	1,667
Loss from equity investment	272	239
Total operating expenses	26,931	14,842
Operating loss	(609)	(8,880)
Other income (expense):		
Interest and investment income	557	540
Loss on sale of interest in subsidiary	-	(84)
Warrant gains (charges)	2,378	(1,740)
Total other income (expense)	2,935	(1,284)
Income (loss) from operations before income taxes	2,326	(10,164)
Benefit (provision) for income taxes	(24)	66
Net income (loss)	2,302	(10,098)
Unrealized gains (losses) on short-term investments	1	(1)
Unrealized gains on foreign currency translation	-	4
Sale of interest in subsidiary's cumulative translation adjustment	-	(61)
Comprehensive income (loss)	\$ 2,303	\$ (10,156)
Earnings (loss) per common share: Attributable to the Acacia Technologies group:		

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Net income (loss)	\$	4,399	\$	(2,409)
Basic earnings (loss) per share		0.16		(0.09)
Diluted earnings (loss) per share		0.14		(0.09)
Attributable to the CombiMatrix group:				
Net loss	\$	(2,097)	\$	(7,689)
Basic and diluted loss per share		(0.04)		(0.20)
Weighted average shares:				
Acacia Research - Acacia Technologies stock:				
Basic		27,841,286		27,400,857
Diluted		30,969,991		27,400,857
Acacia Research - CombiMatrix stock:				
Basic and diluted		52,516,220		38,992,402

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

ACACIA RESEARCH CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)
(Unaudited)

For the Three Months Ended
March 31, 2007 **March 31, 2006**

Cash flows from operating activities:			
Net income (loss)	\$	2,302	\$ (10,098)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization		1,828	1,878
Non-cash stock compensation		1,238	1,743
Deferred taxes		-	(70)
Non-cash warrant charge (credit)		(2,378)	1,740
Loss from equity investment		272	239
Loss on sale of interest in subsidiary		-	84
Other		17	124
Changes in assets and liabilities:			
Accounts receivable		(1,964)	738
Prepaid expenses, inventory and other assets		(308)	(497)
Accounts payable and accrued expenses		283	1,127
Royalties and legal fees payable		2,205	(1,643)
Deferred revenues		(51)	29
Net cash provided by (used in) operating activities from continuing operations		3,444	(4,606)
Net cash provided by operating activities from discontinued operations		10	245
Net cash provided by (used in) operating activities		3,454	(4,361)
Cash flows from investing activities:			
Purchase of property and equipment		(104)	(175)
Purchase of available-for-sale investments		(2,709)	(5,028)
Sale of available-for-sale investments		2,323	3,605
Business acquisition		-	(16)
Purchase of additional interests in equity method investee		-	(650)
Patent acquisition costs		(110)	(550)
Sale of interest in subsidiary		-	(369)
Net cash used in investing activities		(600)	(3,183)
Cash flows from financing activities:			
Proceeds from the exercise of stock options and warrants		1,118	16
Net cash provided by financing activities		1,118	16
Increase (decrease) in cash and cash equivalents		3,972	(7,528)
Cash and cash equivalents, beginning		40,044	20,164

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Cash and cash equivalents, ending	\$	44,016	\$	12,636
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The accompanying notes are an integral part of these consolidated financial statements.

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ACACIA RESEARCH CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Description of Business. Acacia Research Corporation (“we,” “us” and “our”) is comprised of two operating groups.

Acacia Technologies Group

The Acacia Technologies group, a division of Acacia Research Corporation, develops, acquires, licenses and enforces patented technologies. The Acacia Technologies group currently owns or controls the rights to 68 patent portfolios, covering technologies used in a wide variety of industries. The Acacia Technologies group is primarily comprised of certain of Acacia Research Corporation’s wholly owned subsidiaries and limited liability companies including:

- Acacia Global Acquisition Corporation
- Acacia Media Technologies Corporation
- Acacia Patent Acquisition Corporation
- Acacia Technologies Services Corporation
- AV Technologies LLC
- Broadcast Data Retrieval Corporation
- Broadcast Innovation LLC
- Computer Acceleration Corporation
- Computer Cache Coherency Corporation
- Computer Docking Station Corporation
- Contacts Synchronization Corporation
- Credit Card Fraud Control Corporation
- Database Structures Inc.
- Data Encryption Corporation
- Data Innovation LLC
- Diagnostic Systems Corporation
- Digital Security Systems Corporation
- Disc Link Corporation
- Email Link Corporation
- Financial Systems Innovation LLC
- Fluid Dynamics Corporation
- High Resolution Optics Corporation
- Information Technology Innovation LLC
- InternetAd LLC
- IP Innovation LLC
- KY Data Systems LLC
- Location Based Services Corporation
- Micromesh Technology Corporation
- Microprocessor Enhancement Corporation
- Mobile Traffic Systems Corporation
- New Medium LLC
- Parking Security Systems Corporation
- Peer Communications Corporation
- Product Activation Corporation
- Remote Video Camera Corporation
- Resource Scheduling Corporation
- Safety Braking Corporation
- Screentone Systems Corporation
- Soundview Technologies Inc.
- Spreadsheet Automation Corporation
- TechSearch LLC
- Telematics Corporation
- VData LLC

The Acacia Technologies group also includes all corporate assets, liabilities, and related transactions of Acacia Research Corporation attributed to Acacia Research Corporation’s intellectual property licensing and enforcement business.

CombiMatrix Group

Our life sciences business, referred to as the “CombiMatrix group,” a division of Acacia Research Corporation, is comprised of our wholly owned subsidiary, CombiMatrix Corporation and CombiMatrix Corporation’s wholly owned subsidiary, CombiMatrix Molecular Diagnostics, and includes all corporate assets, liabilities and transactions related to Acacia Research Corporation’s life sciences business.

The CombiMatrix group develops proprietary technologies and products and services in the areas of drug development, genetic analysis, nanotechnology research, defense and homeland security markets, and other markets

where its products could be utilized. Among the technologies being developed by the CombiMatrix group is a platform technology to produce customizable arrays, which are semiconductor-based tools for use in identifying and determining the roles of genes, gene mutations and proteins. This technology has potential applications in the areas of genomics, proteomics, biosensors, drug discovery, drug development, diagnostics, combinatorial chemistry, material sciences and nanotechnology. Other technologies include proprietary molecular synthesis and screening methods for the discovery of potential new drugs. CombiMatrix Molecular Diagnostics, Inc., a wholly owned subsidiary located in Irvine, California, is exploring opportunities for the CombiMatrix group's arrays in the field of molecular diagnostics.

ACACIA RESEARCH CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Other

In January 2006, Acacia Research Corporation's board of directors approved a plan for its wholly owned subsidiary, CombiMatrix Corporation, to become an independent public company. The transaction is expected to be completed during the second or third quarter of 2007, subject, however, to completing the required filings with the Securities and Exchange Commission ("SEC"). We have received a private letter ruling from the IRS addressing certain tax implications of the transaction and have received a tax opinion from counsel. CombiMatrix Corporation filed a registration statement on Form S-1 on December 26, 2006, and amended registration statements on Form S-1 on March 12, 2007, April 10, 2007 and May 7, 2007. If CombiMatrix Corporation's registration statement on Form S-1 is declared effective by the SEC, Acacia Research Corporation will redeem all of the issued and outstanding shares of AR-CombiMatrix common stock for all of the common stock of CombiMatrix Corporation at an exchange ratio of ten shares of AR-CombiMatrix common stock for one share of CombiMatrix Corporation common stock, and CombiMatrix Corporation's common stock will be registered under the Securities and Exchange Act of 1934. Concurrent with this process, CombiMatrix Corporation is applying to list its shares for trading on a national exchange.

Capital Structure. Acacia Research Corporation has two classes of common stock called Acacia Research-Acacia Technologies common stock ("AR-Acacia Technologies stock") and Acacia Research-CombiMatrix common stock ("AR-CombiMatrix stock"). AR-Acacia Technologies stock is intended to reflect separately the performance of Acacia Research Corporation's Acacia Technologies group. AR-CombiMatrix stock is intended to reflect separately the performance of Acacia Research Corporation's CombiMatrix group. Although the AR-Acacia Technologies stock and the AR-CombiMatrix stock are intended to reflect the performance of our different business groups, they are both classes of common stock of Acacia Research Corporation and are not stock issued by the respective groups.

Liquidity and Risks

General. Management believes that Acacia Research Corporation's consolidated cash and cash equivalent and short-term investment balances, anticipated cash flow from operations and other external sources of available credit will be sufficient to meet Acacia Research Corporation's cash requirements, on a consolidated basis, through at least May 2008.

Acacia Research Corporation's cash and cash equivalent and short term investment balances, cash flows and anticipated cash flows from operations and other sources of external credit, are attributed to the Acacia Technologies group and the CombiMatrix group based on the respective assets of the specific businesses comprising each group. Issuances of AR-Acacia Technologies stock (and the proceeds thereof) are attributed to the Acacia Technologies group and issuances of AR-CombiMatrix stock (and the proceeds thereof) are attributed to the CombiMatrix group. The cash and cash equivalent balances, anticipated cash flow from operations, and other external sources of available credit of one group are not generally available to the other group. Neither of the groups is obligated to fund the ongoing operations of the other group. Management has no intent to use the cash and cash equivalent balances, anticipated cash flow from operations, and other external sources of available credit of one group to fund the ongoing operations of the other group.

The Acacia Technologies Group. Management believes that the Acacia Technologies group's cash and cash equivalent and short-term investment balances, anticipated cash flow from operations and other external sources of available credit will be sufficient to meet our cash requirements through at least May 2008, and for the foreseeable future. To date, the Acacia Technologies group has relied upon the receipt of license fee payments from the licensing of the Acacia Technologies group's patented technologies and the selling of Acacia Research Corporation equity securities to

generate the funds needed to finance the operations of the Acacia Technologies group. The Acacia Technologies group concluded its V-chip patent licensing program in August 2004, recognizing a total of \$25.7 million in license fees over the life of the program. The Acacia Technologies group has been commercially licensing its DMT® technology portfolio since 2003. On January 28, 2005, Acacia Global Acquisition Corporation acquired the assets of Global Patent Holdings, LLC, which owed 11 licensing companies (“GPH Acquisition”). The GPH Acquisition provided the Acacia Technologies group with ownership of companies that own or control the rights to 27 patent portfolios, which include 120 U.S. patents and certain foreign counterparts, and cover technologies used in a wide variety of industries. Subsequent to the GPH Acquisition, the Acacia Technologies group has acquired or acquired the rights to over 35 additional patent portfolios, covering a wide range of technology areas, which it intends to develop, license and enforce.

There can be no assurance that the Acacia Technologies group will be able to implement its future plans. Failure by management to achieve its plans would have a material adverse effect on the Acacia Technologies group and on Acacia Research Corporation’s ability to achieve its intended business objectives. We may be required to obtain additional financing. There can be no assurance that additional funding will be available on favorable terms, if at all. If we fail to obtain additional funding when needed, we may not be able to execute our business plans and our businesses may suffer.

ACACIA RESEARCH CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The timing of the receipt of revenues by the Acacia Technologies group's business operations are subject to certain risks and uncertainties, including:

- market acceptance of our patented technologies and services;
- business activities and financial results of our licensees;
- technological advances that may make our patented technologies obsolete or less competitive;
- increases in operating costs, including legal services, engineering, research and personnel costs;
 - the availability and cost of capital; and
- governmental regulation that may restrict the Acacia Technologies group's business.

The Acacia Technologies group's success also depends on its ability to protect its intellectual property. The Acacia Technologies group relies on its proprietary rights and their protection. Although reasonable efforts will be taken to protect the Acacia Technologies group's proprietary rights, the complexity of international trade secret, copyright, trademark and patent law, and common law, coupled with limited resources and the demands of quick delivery of technologies to market, create risk that these efforts will prove inadequate. Accordingly, if the Acacia Technologies group is unsuccessful with litigation to protect its intellectual property rights, the future revenues of the Acacia Technologies group could be adversely affected.

The CombiMatrix Group. The CombiMatrix group has a history of incurring net losses and net operating cash flow deficits. The CombiMatrix group is also deploying new and unproven technologies and continues to develop commercial products. The CombiMatrix group has several ongoing long-term development projects that involve experimental technology and may require several years and substantial expenditures to complete. Based on the CombiMatrix group's cash and investment balances as of December 31, 2006, CombiMatrix group management believed that the CombiMatrix group's cash and cash equivalent balances, anticipated cash flows from operations and other external sources of available credit would be sufficient to meet the CombiMatrix group's cash requirements through December 31, 2007 and this raised substantial doubt about the CombiMatrix group's ability to continue as a going concern beyond this point. On May 4, 2007, Acacia Research Corporation executed a registered direct offering as discussed in Note 9 below. The CombiMatrix group will continue to require capital from external sources and there can be no assurances that additional sources of financing, including the issuance of debt and/or equity securities will be available at times and at terms acceptable to management. The issuance of equity securities will also cause dilution to Acacia Research Corporation's shareholders. If external financing sources are not available or are inadequate to fund the CombiMatrix group's operations, management will be required to reduce operating costs including research projects and personnel, which could jeopardize the future strategic initiatives and business plans of the CombiMatrix group. For example, reductions in research and development activities and/or personnel at the CombiMatrix group's Mukilteo, Washington facility could result in the inability to invest the resources necessary to continue to develop next-generation products and improve existing product lines in order to remain competitive in the marketplace, resulting in reduced revenues and cash flows from the sales of the CombiMatrix group's CustomArray products and services. Also, reductions in operating costs at the CombiMatrix group's diagnostics subsidiary in Irvine, California, (CMDX), should they occur, could jeopardize its ability to launch, market and sell additional products and services necessary in order to grow and sustain its operations and eventually achieve profitability.

The CombiMatrix group's business operations are also subject to certain risks and uncertainties, including:

- market acceptance of products and services;
- technological advances that may make the CombiMatrix group's products and services obsolete or less competitive;
- increases in operating costs, including costs for supplies, personnel and equipment;

- the availability and cost of capital; and
- governmental regulation that may restrict the CombiMatrix group's business.

Historically, the CombiMatrix group has been substantially dependent on arrangements with strategic partners and has relied upon payments by the CombiMatrix group's partners for a significant component of its working capital. The CombiMatrix group intends to enter into additional strategic partnerships to develop and commercialize future products. However, there can be no assurance that the CombiMatrix group will be able to implement its future plans. Failure to achieve its plans would have a material adverse effect on the CombiMatrix group's ability to achieve its intended business objectives. The CombiMatrix group's success also depends on its ability to protect its intellectual property, the loss thereof or the failure to secure the issuance of additional patents covering elements of the CombiMatrix group's business processes could materially harm its business and financial condition. The patents covering the CombiMatrix group's core technology begin to expire in 2018.

ACACIA RESEARCH CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The CombiMatrix group's products and services are concentrated in a highly competitive market that is characterized by rapid technological advances, frequent changes in customer requirements and evolving regulatory requirements and industry standards. Failure to anticipate or respond adequately to technological advances, changes in customer requirements, changes in regulatory requirements or industry standards, or any significant delays in the development or introduction of planned products or services, could have a material adverse effect on the CombiMatrix group's business and operating results. No adjustment has been made to these consolidated financial statements as a result of these uncertainties.

In addition to seeking additional capital from outside sources, the CombiMatrix group's plans in regard to these matters include reductions in personnel and fixed overhead costs such as reductions in facilities, staff and research and development related costs made in late 2006 and early 2007. Also, the CombiMatrix group is focusing its sales and product development efforts on its core diagnostic array platform as well as its funded research and development projects for the Department of Defense.

Nasdaq Notification. On April 23, 2007, Acacia Research Corporation received a Nasdaq Staff Deficiency Letter notifying us that our AR-CombiMatrix stock (trading symbol: CBMX) is not in compliance with the minimum trading price of the Nasdaq Global Market set forth in Marketplace Rule 4450(a)(5). To regain compliance, the closing trading price of AR-CombiMatrix stock must be \$1.00 or more for ten consecutive trading days. The AR-CombiMatrix stock must regain compliance by October 22, 2007, in order to maintain the listing of stock.

Acacia Research Corporation intends to complete the split-off of CombiMatrix Corporation by redeeming the AR-CombiMatrix stock for common stock of CombiMatrix Corporation prior to October 22, 2007. Upon redemption, the AR-CombiMatrix stock will no longer be issued and the class will be cancelled. Holders of AR-CombiMatrix stock on the redemption date will hold shares of common stock of CombiMatrix Corporation in proportion to their holdings of AR-CombiMatrix stock. CombiMatrix Corporation has applied for an initial listing of its common stock with the Nasdaq Capital Market, to be effective upon the split-off, and will be subject to the initial listing standards of the Nasdaq Capital Market, including a trading price of \$4.00 or more per share. CombiMatrix Corporation believes it will be able to meet the initial listing standard of \$4.00 per share following the 10:1 redemption ratio described in CombiMatrix Corporation's registration statement pending with the SEC.

Basis of Presentation. The accompanying unaudited consolidated financial statements include the accounts of Acacia Research Corporation and its wholly owned and majority-owned subsidiaries and investments accounted for under the equity method. Material intercompany transactions and balances have been eliminated in consolidation.

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles 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 generally accepted accounting principles in annual financial statements have been omitted or condensed in accordance with quarterly reporting requirements of the 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, 2006, as reported by us in our Annual Report on Form 10-K. The year-end consolidated balance sheet data was derived from audited financial statements but does not include all disclosures required by accounting principles generally accepted in the United States of America.

The consolidated financial statements of Acacia Research Corporation include all adjustments of a normal recurring nature which, in the opinion of management, are necessary for a fair statement of our financial position as of March 31, 2007, and results of operations and cash flows for the interim periods presented. The results of operations for the three months ended March 31, 2007, are not necessarily indicative of the results to be expected for the entire year.

Separate Group Presentation. AR-Acacia Technologies stock and AR-CombiMatrix stock are intended to reflect the separate performance of the respective division of Acacia Research Corporation. The Acacia Technologies group and the CombiMatrix group are not separate legal entities. Holders of AR-Acacia Technologies stock and AR-CombiMatrix stock are stockholders of Acacia Research Corporation. As a result, holders of AR-Acacia Technologies stock and AR-CombiMatrix stock continue to be subject to all of the risks of an investment in Acacia Research Corporation and all of its businesses, assets and liabilities. The assets Acacia Research Corporation attributes to one of the groups could be subject to the liabilities of the other group. The group financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America, and taken together, comprise all the accounts included in the corresponding consolidated financial statements of Acacia Research Corporation. The financial statements of the groups reflect the financial condition, results of operations, and cash flows of the businesses included therein. The financial statements of the groups include the accounts or assets of Acacia Research Corporation specifically attributed to the groups and were prepared using amounts included in Acacia Research Corporation's consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

ACACIA RESEARCH CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Concentrations. Two licensees individually accounted for 39% and 25% of the Acacia Technologies group's license fee revenues recognized during the three months ended March 31, 2007. Two licensees individually accounted for 17% and 13% of the Acacia Technologies group's license fee revenues recognized during the three months ended March 31, 2006. One licensee represented approximately 85% of the Acacia Technologies group's accounts receivable at March 31, 2007. Three licensees individually represented approximately 37%, 24% and 13% of the Acacia Technologies group's accounts receivable at December 31, 2006.

Government contract revenues recognized by the CombiMatrix group for all periods presented relate to the CombiMatrix group's ongoing contracts with the Department of Defense regarding its electrochemical and microfluidics technologies. At March 31, 2007 and December 31, 2006, accounts receivable included \$234,000 and \$87,000, respectively, due from the Department of Defense. For the three months ended March 31, 2006, 57% of the CombiMatrix group's array product and service revenues were recognized by one individual customer. Receivables from the Department of Defense totaled 30% of accounts receivable at March 31, 2007, and another customer represented approximately 29% of accounts receivable at March 31, 2007. At December 31, 2006, 14% of accounts receivable was due from the Department of Defense and 69% of our accounts receivable was due from another customer.

Stock-Based Compensation. Effective January 1, 2006, Acacia Research Corporation adopted the provisions of Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123R"), which sets forth the accounting requirements for "share-based" compensation payments to employees and non-employee directors and requires that compensation cost relating to share-based payment transactions be recognized in the statement of operations. The compensation cost for all stock-based awards is measured at the grant date, based on the fair value of the award, and is recognized as an expense, on a straight-line basis, over the employee's requisite service period (generally the vesting period of the equity award) which is generally two to four years.

The fair value of each option award is estimated on the date of grant using a Black-Scholes option valuation model. The fair value of restricted stock awards is determined by the product of the number of shares granted and the grant date market price of the underlying common stock.

SFAS No. 123R requires stock-based compensation expense to be recorded only for those awards expected to vest using an estimated forfeiture rate. Acacia Research Corporation estimates pre-vesting option forfeitures at the time of grant and reflects the impact of estimated pre-vesting option forfeitures on compensation expense recognized.

Income Taxes. Effective January 1, 2007, Acacia Research Corporation adopted FASB Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes," which clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes." FIN 48 provides guidance on the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures, and transition. In accordance with FIN 48, a tax position is a position in a previously filed tax return or a position expected to be taken in a future tax filing that is reflected in measuring current or deferred income tax assets and liabilities. Tax positions shall be recognized only when it is more likely than not (likelihood of greater than 50%), based on technical merits, that the position will be sustained upon examination. Tax positions that meet the more likely than not threshold should be measured using a probability weighted approach as the largest amount of tax benefit that is greater than 50% likely of being realized upon settlement. The adoption of FIN 48 did not have a material impact on our consolidated or separate group financial position, results of operations or cash flows.

The total amount of unrecognized tax benefits as of January 1, 2007 and March 31, 2007 was \$56,000, all of which, if recognized, would affect the effective tax rate.

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

Acacia Research Corporation is subject to taxation in the U.S. and various state jurisdictions. With no material exceptions, Acacia Research Corporation is no longer subject to U.S. federal, or state examinations by tax authorities for years before 2001.

At December 31, 2006, on a consolidated basis, Acacia Research Corporation's had both federal and state net operating loss ("NOL") carryforwards of approximately \$170,783,000 and \$54,700,000, respectively, which will begin to expire in 2007 and 2026, respectively. At December 31, 2006, the Acacia Technologies group's U.S. federal and state income tax net operating loss carryforwards, including NOLs related to subsidiaries for which Acacia Research Corporation does not file a consolidated return, were approximately \$53,727,000 and \$54,700,000, expiring between 2007 and 2026. At December 31, 2006, the CombiMatrix group had federal net operating loss carryforwards of approximately \$117,056,000, which will begin to expire in 2010 through 2026. At December 31, 2006, consolidated federal research and development ("R&D") credit carryforwards were approximately \$4,014,000, which begin to expire in 2017. Due to uncertainties surrounding our ability to generate future taxable income to realize these assets, a full valuation allowance has been established to offset our net deferred tax assets.

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Utilization of the NOL and R&D credit carryforwards may be subject to a substantial annual limitation due to ownership change limitations that may have occurred or that could occur in the future, as required by Section 382 of the Internal Revenue Code of 1986, as amended (the “Code”), as well as similar state provisions. These ownership changes may limit the amount of NOL and R&D credit carryforwards that can be utilized annually to offset future taxable income and tax, respectively. In general, an “ownership change” as defined by Section 382 of the Code results from a transaction or series of transactions over a three-year period resulting in an ownership change of more than 50 percentage points of the outstanding stock of a company by certain stockholders or public groups. Since Acacia Research Corporation’s formation, we have raised capital through the issuance of capital stock on several occasions (both before and after its public offering) which, combined with the purchasing stockholders’ subsequent disposition of those shares, may have resulted in such an ownership change, or could result in an ownership change in the future upon subsequent disposition.

Acacia Research Corporation has not completed a study to assess whether an ownership change has occurred or whether there have been multiple ownership changes since Acacia Research Corporation’s formation due to the complexity and cost associated with such a study, and the fact that there may be additional such ownership changes in the future. If Acacia Research Corporation has experienced an ownership change at any time since its formation, utilization of the NOL or R&D credit carryforwards would be subject to an annual limitation under Section 382 of the Code, which is determined by first multiplying the value of Acacia Research Corporation’s stock at the time of the ownership change by the applicable long-term, tax-exempt rate, and then could be subject to additional adjustments, as required. Any limitation may result in expiration of a portion of the NOL or R&D credit carryforwards before utilization. Further, until a study is completed and any limitation known, no amounts are being considered as an uncertain tax position or disclosed as an unrecognized tax benefit under FIN 48. Due to the existence of the valuation allowance, future changes in our unrecognized tax benefits will not impact our effective tax rate. Any carryforwards that will expire prior to utilization as a result of such limitations will be removed from deferred tax assets with a corresponding reduction of the valuation allowance.

3. EARNINGS PER SHARE

Earnings (Loss) Per Share. Basic earnings per share for each class of common stock is computed by dividing the income or loss allocated to each class of common stock by the weighted-average number of outstanding shares of that class of common stock. Diluted earnings per share is computed by dividing the income or loss allocated to each class of common stock by the weighted-average number of outstanding shares of that class of common stock including the dilutive effect of common stock equivalents. Potentially dilutive common stock equivalents primarily consist of employee stock options, unvested restricted stock grants and common stock purchase warrants.

The earnings or losses allocated to each class of common stock are determined by Acacia Research Corporation’s board of directors. This determination is generally based on the net income or loss amounts of the corresponding group determined in accordance with accounting principles generally accepted in the United States of America, consistently applied. Acacia Research Corporation believes this method of allocation is systematic and reasonable. The Acacia Research Corporation board of directors can, at its discretion, change the method of allocating earnings or losses to each class of common stock at any time.

The following table presents a reconciliation of basic and diluted income (loss) per share:

	For the Three Months Ended
	March 31, 2007 March 31, 2006

Acacia Research - Acacia Technologies stock

Basic weighted average number of common shares outstanding	27,841,286	27,400,857
Effect of dilutive stock options and restricted stock awards	3,128,705	-
Diluted weighted average number of common shares outstanding	30,969,991	27,400,857
Outstanding stock options and restricted stock excluded from the computation of diluted loss per share because the effect of inclusion would have been anti-dilutive	1,525,158	6,745,919

Acacia Research - CombiMatrix stock

Basic and diluted weighted average number of common shares outstanding	52,516,220	38,992,402
All outstanding stock options excluded from the computation of diluted loss per share because the effect of inclusion would have been anti-dilutive	7,528,686	6,949,466

ACACIA RESEARCH CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Outstanding stock options totaling 1,492,000, under the CombiMatrix Molecular Diagnostics 2005 Stock Award Plan, have also been excluded from the computation of diluted loss per share because the effect of inclusion would have been anti-dilutive. All AR-CombiMatrix common stock purchase warrants outstanding for the periods presented, as disclosed at Note 6, have been excluded from the computation of diluted loss per share because the effect of inclusion would have been anti-dilutive.

4. GOODWILL AND INTANGIBLE ASSETS

The Acacia Technologies group had \$121,000 of goodwill at March 31, 2007 and December 31, 2006. The CombiMatrix group had \$16,918,000 of goodwill at March 31, 2007 and December 31, 2006.

Acacia Research Corporation's only identifiable intangible assets at March 31, 2007 and December 31, 2006, are patents and licenses. The gross carrying amounts and accumulated amortization as of March 31, 2007 and December 31, 2006, related to patents and licenses, by segment, are as follows (in thousands):

	Acacia Technologies Group		CombiMatrix Group		Consolidated	
	December		December		December	
	March 31,	31,	March 31,	31,	March 31,	31,
	2007	2006	2007	2006	2007	2006
Gross carrying amount - patents and licenses	\$ 30,427	\$ 30,317	\$ 12,595	\$ 12,595	\$ 43,022	\$ 42,912
Accumulated amortization	(13,118)	(11,802)	(5,593)	(5,303)	(18,711)	(17,105)
Patents and licenses, net	\$ 17,309	\$ 18,515	\$ 7,002	\$ 7,292	\$ 24,311	\$ 25,807

The Acacia Technologies group and the CombiMatrix group's patents have remaining estimated economic useful lives up to 2014 and 2020, respectively. The weighted average remaining estimated economic useful life of the Acacia Technologies group's patents is four years. Annual aggregate amortization expense for each of the five fiscal years through December 31, 2011 is estimated to be \$5,254,000 in 2007, \$3,931,000 in 2008, \$3,481,000 in 2009, \$3,290,000 in 2010 and \$2,342,000 in 2011 for the Acacia Technologies group and \$1,133,000 per year for the CombiMatrix group. At March 31, 2007 and December 31, 2006, all of our acquired intangible assets other than goodwill were subject to amortization.

For the three months ended March 31, 2007 and 2006, the Acacia Technologies group paid patent acquisition costs totaling \$110,000 and \$550,000 in connection with the acquisition of the rights to additional patent portfolios. The patents have estimated economic useful lives of six to seven years.

5. RECENT ACCOUNTING PRONOUNCEMENTS

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115" ("SFAS No. 159"). SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value, with unrealized gains and losses related to these financial instruments reported in earnings at each subsequent reporting date. We are currently assessing the impact, if any, of adopting SFAS No. 159 on our consolidated and separate group financial position,

results of operations and cash flows.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"). SFAS No. 157 establishes a common definition for fair value to be applied to US GAAP guidance requiring use of fair value, establishes a framework for measuring fair value, and expands disclosure about such fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. We are currently assessing the impact, if any, of adopting SFAS No. 157 on our consolidated and separate group financial position, results of operations and cash flows.

In June 2006, the Emerging Issues Task Force issued EITF 06-3, "How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation)" ("EITF 06-3") to clarify diversity in practice on the presentation of different types of taxes in the financial statements. The Task Force concluded that, for taxes within the scope of the issue, a company may adopt a policy of presenting taxes either gross within revenue or net. That is, it may include charges to customers for taxes within revenues and the charge for the taxes from the taxing authority within cost of sales, or, alternatively, it may net the charge to the customer and the charge from the taxing authority. The guidance in this consensus is effective for the first interim reporting period beginning after December 15, 2006. The adoption of EITF 06-3 did not have a material impact on our consolidated and separate group financial position, results of operations and cash flows.

ACACIA RESEARCH CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

6. COMMON STOCK PURCHASE WARRANT LIABILITY

During the three months ended March 31, 2007, proceeds of \$368,000 were received from the issuance of 423,000 shares of AR-CombiMatrix stock related to the exercise of certain warrants issued in connection with the CombiMatrix group's December 2006 private equity financing. The proceeds from the warrants exercised were attributed to the CombiMatrix group.

AR-CombiMatrix stock purchase warrants outstanding for the periods presented were as follows:

AR-CombiMatrix Warrants:

Date of Issue	Number of Warrants Outstanding		Exercise Price	Expiration
	March 31, 2007	December 31, 2006		
	(In thousands)			
December 2006	11,787	12,210	\$ 0.87 - \$1.09	December 2011
September 2005	1,596	1,596	\$ 2.40	September 2010
May 2003	283	283	\$ 2.75	May 2008
Total	13,666	14,089		

Acacia Research Corporation's classes of common stock are subject to certain redemption provisions in the event that Acacia Research Corporation sells, transfers, assigns or otherwise disposes of, in one transaction or a series of related transactions, all or substantially all of the properties and assets attributed to either group.

FASB Staff Position No. 150-5 ("FSP No. 150-5") requires that purchase warrants for shares that are redeemable be classified as liabilities, based on the fair values of the warrants, which are required to be marked to market at each balance sheet date. The fair value of contingently redeemable AR-CombiMatrix stock purchase warrants outstanding at March 31, 2007 and December 31, 2006 was \$4,355,000 and \$6,732,000, respectively. Net warrant gains (charges) for the three months ended March 31, 2007 and 2006, reflected in other income (expense), related to changes in the fair value of the warrant liability totaled \$2,378,000 and (\$1,740,000), respectively.

The fair value of AR-CombiMatrix stock purchase warrants at March 31, 2007 and December 31, 2006 was determined using the Black-Scholes option-pricing model, using weighted-average assumptions as follows:

	March 31, 2007	December 31, 2006
<i>AR-CombiMatrix Warrants:</i>		
Risk free interest rate	4.55%	4.71%
Volatility	79%	80%
Remaining contractual term	4.5 years	4.7 years

7. COMMITMENTS AND CONTINGENCIES

Collaborative and Research Agreements

On February 8, 2006, the CombiMatrix group executed a one-year, \$2.1 million contract with the DoD to further the development of the CombiMatrix group's array technology for the detection of biological and chemical threat agents. Under the terms of the CombiMatrix group's one-year contract with the DoD, the CombiMatrix group will perform research and development activities, as described under the contract, and will be reimbursed on a periodic basis for actual costs incurred to perform its obligations, plus a fixed fee, of up to \$2.1 million. The CombiMatrix group substantially completed this contract during the first quarter of 2007 and does not expect to incur significant costs or revenues from this contract beyond March 31, 2007.

ACACIA RESEARCH CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

On August 9, 2006, the CombiMatrix group executed a two-year, \$1.9 million contract with the DoD, focusing on the integration of its electrochemical detection technology currently under development with the CombiMatrix group's microfluidics "lab-on-a-chip" technology to be used for military and homeland security applications. Under the terms of this contract, the CombiMatrix group will perform research and development activities, as described under the contract, and will be reimbursed on a periodic basis for actual costs incurred to perform its obligations, plus a fixed fee, of up to \$1.9 million. As of March 31, 2007, the CombiMatrix group had incurred \$368,000 in actual contract costs for the microfluidics contract.

On March 13, 2007, the CombiMatrix group executed a one-year, \$869,000 contract with the DoD, focusing on the development of a field-deployable influenza genotyping system based on the CombiMatrix group's electrochemical detection technology to be used for military and homeland security applications. Under the terms of this contract, the CombiMatrix group will perform research and development activities, as described under the contract, and will be reimbursed on a periodic basis for actual costs incurred to perform its obligations, plus a fixed fee, of up to \$869,000. As of March 31, 2007, the CombiMatrix group had incurred \$27,000 in actual contract costs for the genotyping contract.

Litigation and Patent Enforcement

Acacia Research Corporation 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 our financial position, results of operations or cash flows. Companies comprising the Acacia Technologies group are often required to engage in litigation to enforce their patents and patent rights.

CombiMatrix Corporation is required to make quarterly payments to Nanogen, Inc. pursuant to the terms of a litigation settlement between the two parties equal to 12.5% of payments to CombiMatrix Corporation from sales of products developed by CombiMatrix Corporation and its affiliates and based on the patents that had been in dispute in the litigation, up to an annual maximum of \$1,500,000. The minimum quarterly payments under the settlement agreement are \$25,000 per quarter until the patents expire in 2018. Royalties recognized under the agreement during the three months ended March 31, 2007 and 2006, were \$25,000 and \$50,000, respectively, and are included in patent amortization and royalties in the accompanying consolidated statements of operations. Patent amortization and royalties for the CombiMatrix group relate to costs of product sales.

Inventor Royalties and Contingent Legal Expenses

In connection with the acquisition of certain patents and patent rights, certain companies included in the Acacia Technologies group executed related agreements which grant to the former owners of the respective patents or patent rights, the right to receive inventor royalties based on future net license fee revenues (as defined in the respective agreements) generated by the Acacia Technologies group as a result of licensing the respective patents or patent portfolios. Inventor royalties paid pursuant to the agreements are expensed in the consolidated statement of operations and comprehensive loss in the period that the related license fee revenues are recognized.

In connection with the Acacia Technologies group's licensing and enforcement activities, the Acacia Technologies group may retain the services of law firms that specialize in intellectual property licensing and enforcement and patent law. These law firms may be retained on a contingent fee basis in which the law firms are paid on a scaled percentage of any negotiated license fees, settlements or judgments awarded based on how and when the license fees, settlements or judgments are obtained by the Acacia Technologies group. In instances where the Acacia Technologies group does not recover license fees from potential infringers, no contingent legal fees are paid; however, the Acacia Technologies

group may be liable for certain out of pocket legal costs incurred pursuant to the underlying legal services agreement. Legal fees advanced by contingent law firms that are required to be paid in the event that no license recoveries are obtained by the Acacia Technologies group are expensed as incurred and included in liabilities in the statement of financial position.

Guarantees and Indemnifications

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

ACACIA RESEARCH CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

8. SALE OF INTEREST IN SUBSIDIARY

In January 2006, the CombiMatrix group expanded its relationship with one of its existing distributors, InBio, for the Asia Pacific region. Major components of the expanded relationship included the transfer of day-to-day operational responsibility and majority ownership of CombiMatrix K.K. to InBio, along with an expanded distribution agreement that encompasses Japan. InBio obtained 67% of the voting interests in CombiMatrix K.K. for a nominal amount of consideration. As a result, InBio assumed all operational and financial responsibilities of CombiMatrix K.K. The net loss on the sale of 67% of the voting interest in CombiMatrix K.K. recorded in the statement of operations for three months ended March 31, 2006 was \$84,000. Subsequent to the sale, the CombiMatrix group's investment in CombiMatrix K.K. was accounted for under the equity method. The deconsolidation of CombiMatrix K.K. did not have a material impact on the consolidated or CombiMatrix group balance sheets as of March 31, 2006.

9. SUBSEQUENT EVENT

On May 4, 2007, Acacia Research Corporation executed a registered direct offering with certain directors of CombiMatrix Corporation and other unaffiliated investors raising gross proceeds of \$5,000,000 through the issuance of 6,780,931 units. Each unit consists of one share of AR-CombiMatrix common stock and 1.5 five-year common stock warrants, for a total of 6,780,931 shares and warrants to purchase 10,171,397 shares of AR-CombiMatrix common stock, respectively, issued to investors. Each warrant entitles the holder to purchase a share of AR-CombiMatrix stock at a price of \$0.55 per share. The proceeds from this financing will be attributed to the CombiMatrix group. As a result of this financing, CombiMatrix group management believes that the CombiMatrix group will have sufficient funds to operate without requiring additional external funding through May of 2008.

10. CONSOLIDATING SEGMENT INFORMATION

Acacia Research Corporation has adopted the provisions of SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." Our chief operating decision maker is considered to be Acacia Research Corporation's Chief Executive Officer ("CEO"). The CEO reviews and evaluates financial information presented on a group basis as described below. Management evaluates performance based on the profit or loss from continuing operations and financial position of its segments. Acacia Research Corporation has two reportable segments as described earlier in Note 1.

Material intercompany transactions and transfers have been eliminated in consolidation. The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

Presented below is consolidating financial information for our reportable segments reflecting the businesses of the Acacia Technologies group and the CombiMatrix group. Earnings attributable to each group has been determined in accordance with accounting principles generally accepted in the United States.

ACACIA RESEARCH CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Consolidating Balance Sheets
(In thousands)
(Unaudited)

	At March 31, 2007				At December 31, 2006			
	Acacia Technologies Group	CombiMatrix Group	Eliminations	Consolidated	Acacia Technologies Group	CombiMatrix Group	Eliminations	Consolidated
ASSETS								
Current assets:								
Cash and cash equivalents	\$ 39,899	\$ 4,117	\$ -	\$ 44,016	\$ 32,215	\$ 7,829	\$ -	\$ 40,044
Short-term investments	13,294	6,400	-	19,694	12,783	6,513	-	19,296
Accounts receivable	2,057	781	-	2,838	269	605	-	874
Prepaid expenses, inventory and other assets	1,355	750	-	2,105	1,187	605	-	1,792
Receivable from CombiMatrix group	165	-	(165)	-	380	-	(380)	-
Total current assets	56,770	12,048	(165)	68,653	46,834	15,552	(380)	62,006
Property and equipment, net of accumulated depreciation	243	1,642	-	1,885	221	1,785	-	2,006
Patents and licenses, net of accumulated amortization	17,309	7,002	-	24,311	18,515	7,292	-	25,807
Goodwill	121	16,918	-	17,039	121	16,918	-	17,039
Other assets	82	2,397	-	2,479	79	2,667	-	2,746
	\$ 74,525	\$ 40,007	\$ (165)	\$ 114,367	\$ 65,770	\$ 44,214	\$ (380)	\$ 109,604
LIABILITIES AND STOCKHOLDERS' EQUITY								
Current liabilities:								
Accounts payable and accrued expenses	\$ 2,834	\$ 2,545	\$ -	\$ 5,379	\$ 2,201	\$ 2,846	\$ -	\$ 5,047
Royalties and legal fees payable	3,889	-	-	3,889	1,684	-	-	1,684
Current portion of deferred revenues	400	336	-	736	360	365	-	725
Payable to Acacia Technologies group	-	165	(165)	-	-	380	(380)	-
Total current liabilities	7,123	3,046	(165)	10,004	4,245	3,591	(380)	7,456

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Deferred revenues, net of current portion	-	1,014	-	1,014	-	1,076	-	1,076
Warrant liability	-	4,355	-	4,355	-	6,732	-	6,732
Other liabilities	81	-	-	81	31	-	-	31
Total liabilities	7,204	8,415	(165)	15,454	4,276	11,399	(380)	15,295
Redeemable stockholders' equity:								
AR - Acacia								
Technologies stock	67,321	-	-	67,321	61,494	-	-	61,494
AR - CombiMatrix stock	-	31,592	-	31,592	-	32,815	-	32,815
Total stockholders' equity	67,321	31,592	-	98,913	61,494	32,815	-	94,309
	\$ 74,525	\$ 40,007	\$ (165)	\$ 114,367	\$ 65,770	\$ 44,214	\$ (380)	\$ 109,604

ACACIA RESEARCH CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Consolidating Statements of Operations
(In thousands)
(Unaudited)

	For the Three Months Ended March 31, 2007			For the Three Months Ended March 31, 2006		
	Acacia Technologies Group	CombiMatrix Group	Consolidated	Acacia Technologies Group	CombiMatrix Group	Consolidated
Revenues:						
Government contracts	\$ -	\$ 549	\$ 549	\$ -	\$ 264	