

ACACIA RESEARCH CORP  
Form 424B5  
October 10, 2006

FILED PURSUANT TO RULE 424(B)(5)  
REGISTRATION NO. 333-133529

**PROSPECTUS SUPPLEMENT**

**To Prospectus dated April 25, 2006**

**101,781 Shares**

**ACACIA RESEARCH CORPORATION**  
**Acacia Research - CombiMatrix Common Stock**

**\$0.98 per share**

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· Acacia Research Corporation is offering 101,781 shares of its Acacia Research - CombiMatrix common stock.

· Trading symbol: Nasdaq National Market --CBMX

· The last reported sale price of our Acacia Research - CombiMatrix Common Stock on October 6, 2006 was \$0.96 per share.

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**This investment involves a high degree of risk. See “Risk Factors” beginning on page 4 of the accompanying prospectus.**

	<b>Per Share</b>	<b>Total</b>
Public offering price	\$ 0.9825	\$ 100,000
Placement agency fees	\$ 0.0442	\$ 4,500
Proceeds, before expenses, to Acacia Research Corporation	\$ 0.9383	\$ 95,500

Delivery of the shares will be made on or about October 10, 2006. The cash proceeds will be delivered to Acacia Research Corporation. All funds received will be held in a non-interest bearing account.

**Neither the Securities and Exchange Commission nor any state securities commission has approved of anyone's investment in these securities or determined if this prospectus supplement and the accompanying prospectus are truthful or complete. Any representation to the contrary is a criminal offense.**

The date of this prospectus supplement is October 10, 2006.

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## ABOUT THIS PROSPECTUS SUPPLEMENT

This prospectus supplement and the accompanying prospectus dated April 25, 2006, relate to the offer by us of 101,781 shares of our Acacia Research - CombiMatrix Common Stock. In the accompanying prospectus, we provide you with a general description of our securities that we are offering. These documents contain important information you should consider when making your investment decision. This prospectus supplement may add, update or change information in the accompanying prospectus. You should read both this prospectus supplement and the accompanying prospectus as well as the additional information described under “Information Incorporated by Reference” below and “Where You Can Find More Information” on page 24 of the accompanying prospectus before investing in our securities.

You should rely only on the information contained or incorporated by reference into this prospectus supplement and the accompanying prospectus. We have not authorized any other person to provide you with information different from that contained or incorporated in this prospectus supplement and the accompanying prospectus. We are offering to sell our securities only in jurisdictions where offers and sales are permitted. The information contained or incorporated into this prospectus supplement and the accompanying prospectus is complete and accurate only as of the date of such information, regardless of the time of delivery of this prospectus supplement and the accompanying prospectus or of any sale of our securities.

In this prospectus supplement, unless the context otherwise indicates, the terms “we,” “our,” “us,” and “the company” refer to Acacia Research Corporation.

## RISK FACTORS

*Our AR-CombiMatrix stock has recently traded below the minimum bid price required by the Nasdaq Global Market continued listing requirements, and if this trend continues for thirty consecutive business days, we may be delisted from the Nasdaq Global Market if we are unable to achieve compliance within 180 days following notice from Nasdaq.*

Since September 25, 2006, the lowest trading price of our AR-CombiMatrix stock has ranged from \$0.99 to \$0.88 per share. If our AR-CombiMatrix stock continues to trade below \$1.00 for thirty (30) consecutive business days, then we will fail to meet the continued listing requirements of the Nasdaq Global Market. If this occurs, we will receive notice from Nasdaq which will be publicly disclosed. Following receipt of such notice, we would have 180 days to achieve compliance with the minimum bid price standard of \$1.00 per share. If we were unable to achieve compliance within 180 days, then our AR-CombiMatrix stock would most likely be removed from trading on the Nasdaq Global Market and begin trading on the OTC Bulletin Board until we were able to meet the initial listing requirements of a Nasdaq market or another national exchange, such as Amex. If the AR-CombiMatrix stock is delisted, we would be unable to provide any assurance that we would be eligible for listing on any national exchange.

## INFORMATION INCORPORATED BY REFERENCE

The Securities and Exchange Commission (the “SEC”) allows us to “incorporate by reference” the information we file with it, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is an important part of this prospectus supplement or the accompanying prospectus, and information that we file later with the SEC will automatically update and supersede this information. We incorporate by reference the documents listed below and any future filings we make with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 until all of the securities that we may offer with this prospectus supplement and the accompanying prospectus are sold:

Our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2006;

Our Current Report on Form 8-K filed on June 15, 2006;

Our Current Report on Form 8-K filed on June 22, 2006;

Our Current Report on Form 8-K filed on July 18, 2006;

Our Current Report on Form 8-K filed on July 20, 2006;

Our Current Report on Form 8-K filed on July 25, 2006; and

Our Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2006;

You may request a copy of these filings at no cost, by writing or telephoning Chief Financial Officer, Acacia Research Corporation, 500 Newport Center Drive, 7<sup>th</sup> Floor, Newport Beach, CA 92660, (949) 480-8300.

### **CAPITALIZATION**

The following table sets forth our actual capitalization as of June 30, 2006, and our capitalization as adjusted to give effect to the issuance of 101,781 shares of our Acacia Research-CombiMatrix common stock in this offering at an assumed offering price of \$0.98 per share, net of offering costs, plus the issuance of 2,019,646 shares of Acacia Research-CombiMatrix common stock sold since June 30, 2006, pursuant to registration statements of which this supplement is a part, at prices ranging from \$1.13 to \$1.16 per share, net of offering costs.

The information set forth in the following table should be read in conjunction with, and is qualified in its entirety by, the financial statements and the notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2005, and in our Quarterly Reports on Form 10-Q for the quarter ended March 31, 2006 and June 30, 2006 which are incorporated by reference into the accompanying prospectus.

AS OF JUNE 30, 2006

HISTORICAL AS ADJUSTED

(dollars in thousands)

## REDEEMABLE STOCKHOLDERS' EQUITY:

## Preferred stock -

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

\$	-	\$	-
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## Common stock -

Acacia Research-Acacia Technologies common  
stock,  
par value \$0.001 per share, 100,000,000  
authorized;  
27,899,920 shares issued and outstanding;  
27,899,920

Shares issued and outstanding, as adjusted	28	28
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Acacia Research-CombiMatrix common stock,  
par value  
\$0.001 per share, 100,000,000 authorized;  
39,336,152  
shares issued and outstanding, 41,457,579 shares  
issued  
and outstanding, as adjusted

39	41
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Additional paid-in capital	317,716	319,885
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Accumulated comprehensive loss	(56)	(56)
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Accumulated deficit	(219,263)	(219,263)
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Total redeemable stockholders' equity	\$ 98,464	\$ 100,635
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**DILUTION**

Our net tangible book value on June 30, 2006, was as follows:

	Net Tangible Book Value (In Thousands)	Shares of Common Stock Outstanding	Net Tangible Book Value Purchase
CombiMatrix Group	\$13,049	39,336,152	\$0.33
Acacia Technologies Group	\$41,399	27,899,920	\$1.48
Acacia Research Corporation	\$54,448	N/A	N/A
Consolidated			

Without taking into account any other changes in the net tangible book value for the CombiMatrix group after June 30, 2006, other than to give effect to our receipt of the estimated net proceeds from the sale of the maximum number of shares issuable in this offering (101,781 shares of Acacia Research-CombiMatrix common stock) at an offering price of \$0.98 per share, less our estimated offering expenses, the net tangible book value of the CombiMatrix group as of June 30, 2006, after giving effect to the items above, would have been approximately \$13,138,000 or \$0.33 per share. This represents an immediate increase in the net tangible book value of \$0.00 per share to existing holders of Acacia Research-CombiMatrix common stock and an immediate dilution of \$0.65 per share to new investors.

The following table illustrates this per share dilution:

Offering price per share of Acacia Research-CombiMatrix common stock	\$	0.98
Net tangible book value per share as of June 30, 2006 (1)		0.33
Increase in net tangible book value per share attributable to the offering (1)		0.00
Pro forma net tangible book value per share as of June 30, 2006, after giving effect to the offering (1)		0.33
Dilution per share to new investors in the Offering	\$	0.65

(1) Per share amounts calculated using the net tangible book value of Acacia Research Corporation's CombiMatrix group.

The tables above are based on 27,899,920 shares of Acacia Research-Acacia Technologies common stock and 39,336,152 shares of Acacia Research-CombiMatrix common stock outstanding as of June 30, 2006, and exclude the shares of Acacia Research-Acacia Technologies common stock and Acacia Research-CombiMatrix common stock that may be issued upon the exercise of outstanding options granted and shares reserved for issuance under our 2002 Acacia Technologies Stock Incentive Plan and our 2002 CombiMatrix Stock Incentive Plan, as of June 30, 2006.

To the extent that any Acacia Research-CombiMatrix common stock options outstanding as of June 30, 2006, are exercised, new Acacia Research-CombiMatrix common stock options are issued under our stock incentive plans and exercised, or we issue additional shares of Acacia Research-CombiMatrix common stock in the future, there will be further dilution to new investors.

**PLAN OF DISTRIBUTION**

This offer by us of 101,781 shares of our Acacia Research - CombiMatrix Common Stock is pursuant to a Standby Equity Distribution Agreement ("SEDA") that we entered into with Cornell Capital Partners, L.P. on June 14, 2006, as amended. Under the Standby Equity Distribution Agreement, Cornell committed to purchase up to \$50 million of our Acacia Research-CombiMatrix common stock, at a discount to fair market value price of 2.5%. For a period of 24 months from the date of the Agreement, we may sell shares to Cornell in maximum single advances of \$5,000,000, up to a total price of \$50,000,000 or up to, but not exceeding, a total of 13,024,924 shares, which represents less than 20% of the total outstanding shares of Acacia Research-CombiMatrix common stock on June 14, 2006. Since executing the SEDA with Cornell, we have sold a total of 2,019,646 shares of our Acacia Research-CombiMatrix Common Stock for net proceeds of \$2,207,000, exclusive of this offering.



Pursuant to the Standby Equity Distribution Agreement we have made certain covenants, including that we will use our best efforts to maintain the continuous effectiveness of our registration statement with the SEC, and that we will maintain a listing for our shares of Acacia Research-CombiMatrix common stock on the Nasdaq National Market, Nasdaq Capital Market, New York Stock Exchange, American Stock Exchange or the OTC Bulletin Board. We currently anticipate that the 101,781 shares of our Acacia Research - CombiMatrix Common Stock will continue to be listed on the Nasdaq National Market under the trading symbol "CBMX."

To date, we have received a total of \$2,300,000 in gross proceeds, exclusive of this offering. We paid a total of \$644,000 in fees to Cornell, exclusive of this offering, and we are required to pay additional advance fees of 4% of each future advance up to the first \$20 million of advances, and 5% of each future advance in excess of \$20 million.

We anticipate that the closing of the takedown of 101,781 shares of our Acacia Research - CombiMatrix Common Stock in accordance with the Standby Equity Distribution Agreement will close on or about October 10, 2006. On the scheduled closing date, we anticipate receipt of funds in the amount of the aggregate purchase price, less the advance fees.

### **LEGAL MATTERS**

Certain legal matters in connection with the legality of the offering of the securities hereby will be passed upon for us by Greenberg Traurig LLP, Costa Mesa, California.

**PROSPECTUS**

**\$75,000,000**

**ACACIA RESEARCH CORPORATION**

**ACACIA RESEARCH - COMBIMATRIX COMMON STOCK  
ACACIA RESEARCH - ACACIA TECHNOLOGIES COMMON STOCK  
WARRANTS**

By this prospectus, we may offer, from time to time:

- shares of our Acacia Research - CombiMatrix common stock;
- shares of our Acacia Research - Acacia Technologies common stock;
- warrants to purchase shares of our Acacia Research - CombiMatrix common stock and our Acacia Research - Acacia Technologies common stock; or
- any combination of the foregoing.

We will provide specific terms of each issuance of these securities in supplements to this prospectus. You should read this prospectus and any supplement carefully before you decide to invest.

This prospectus may not be used to consummate sales of these securities unless it is accompanied by a prospectus supplement

Our Acacia Research - CombiMatrix common stock is traded on the Nasdaq National Market under the ticker symbol "CBMX." On April 21, 2006, the last reported sales price of our Acacia Research - CombiMatrix common stock was \$2.09 per share. Our Acacia Research - Acacia Technologies common stock is traded on the Nasdaq National Market under the ticker symbol "ACTG." On April 21, 2006, the last reported sales price of our Acacia Research - Acacia Technologies common stock was \$9.98 per share.

**INVESTING IN OUR SECURITIES INVOLVES SUBSTANTIAL RISKS. SEE "RISK FACTORS" BEGINNING ON PAGE 3 TO READ ABOUT FACTORS YOU SHOULD CONSIDER BEFORE BUYING SHARES OF OUR COMMON STOCK.**

**NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

**THE INFORMATION IN THIS PRELIMINARY PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED WITHOUT NOTICE. WE MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PRELIMINARY PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES, AND WE ARE NOT SOLICITING OFFERS TO BUY THESE SECURITIES IN ANY JURISDICTION**

**WHERE THE OFFER OR SALE OF THESE SECURITIES IS NOT PERMITTED.**

The date of this prospectus is April 25, 2006

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## PROSPECTUS SUMMARY

*THIS SUMMARY HIGHLIGHTS INFORMATION CONTAINED ELSEWHERE IN THIS PROSPECTUS. THIS SUMMARY DOES NOT CONTAIN ALL THE INFORMATION THAT YOU SHOULD CONSIDER BEFORE INVESTING IN OUR COMMON STOCK. YOU SHOULD READ THIS ENTIRE PROSPECTUS CAREFULLY, ESPECIALLY “RISK FACTORS” AND OUR FINANCIAL STATEMENTS AND RELATED NOTES INCORPORATED BY REFERENCE ON PAGE 25 BELOW.*

### ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission, or SEC, using a “shelf” registration process. Under this process, we may offer and sell any combination of our Acacia Research - CombiMatrix common stock (“AR-CombiMatrix stock”), Acacia Research - Acacia Technologies common stock (“AR-Acacia Technologies stock”) and warrants to purchase our AR-CombiMatrix stock or our AR-Acacia Technologies stock in one or more offerings for total proceeds of up to \$75,000,000. This prospectus provides you with a general description of the securities we may offer. Each time we offer to sell securities, we will provide a supplement to this prospectus that will contain specific information about the terms of that offering. The prospectus supplement may also add, update or change information contained in this prospectus. It is important for you to consider the information contained in this prospectus and any prospectus supplement together with additional information described under the heading “Where You Can Find More Information.”

You should rely only on the information contained in this prospectus or any related prospectus supplement, including the content of all documents now or in the future incorporated by reference into the registration statement of which this prospectus forms a part. We have not authorized anyone to provide you with different information. We are not making an offer of the shares of our common stock or warrants to be sold under this prospectus in any jurisdiction where the offer or sale is not permitted. You should not assume that the information contained in this prospectus or any related prospectus supplement is accurate as of any date other than the date on the front cover of this prospectus or the related prospectus supplement, or that the information contained in any document incorporated by reference is accurate as of any date other than the date of the document incorporated by reference. Other than as required under the federal securities laws, we undertake no obligation to publicly update or revise such information, whether as a result of new information, future events or any other reason. We are required to update this prospectus and the registration statement with a post-effective amendment to include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement, including this prospectus.

**PRIOR TO MAKING A DECISION ABOUT INVESTING IN OUR COMMON STOCK, YOU SHOULD CAREFULLY CONSIDER THE SPECIFIC RISKS CONTAINED IN THE SECTION ENTITLED “RISK FACTORS” BELOW, AND ANY APPLICABLE PROSPECTUS SUPPLEMENT, TOGETHER WITH ALL OF THE OTHER INFORMATION CONTAINED IN THIS PROSPECTUS AND ANY PROSPECTUS SUPPLEMENT OR APPEARING IN THE REGISTRATION STATEMENT OF WHICH THIS PROSPECTUS IS A PART.**

### BUSINESS

Acacia Research Corporation is comprised of two operating groups.

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 subsidiaries, CombiMatrix Molecular Diagnostics, Inc. and CombiMatrix K.K. and includes all corporate assets, liabilities and transactions related to Acacia Research Corporation’s life sciences business. The CombiMatrix group is seeking to

become a broadly diversified biotechnology business, through the development of proprietary technologies, products and services in the areas of drug development, genetic analysis, molecular diagnostics, nanotechnology research, defense and homeland security markets, as well as other potential markets where its products could be utilized. Among the technologies being developed by the CombiMatrix group is a platform technology to rapidly 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 a wide range of 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. CombiMatrix K.K., a previously wholly owned Japanese corporation located in Tokyo, Japan, has existed for the purposes of exploring opportunities for CombiMatrix Corporation's array system with pharmaceutical and biotechnology companies in the Asian market. In January 2006, CombiMatrix Corporation sold 67% of its ownership interest in CombiMatrix K.K. to a third party.

The Acacia Technologies group, a division of Acacia Research Corporation, develops, acquires and licenses patented technologies. The Acacia Technologies group is primarily comprised of a number of Acacia Research Corporation's wholly owned subsidiaries and limited liability companies. 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. The Acacia Technologies group currently controls 42 patent portfolios, which include over 160 U.S. patents, and certain foreign counterparts, covering technologies used in a wide variety of industries, including the following:

- Audio/Video Enhancement & Synchronization
- Broadcast Data Retrieval
- Compact Disk Technology
- Computer Memory Cache Coherency
- Computing Device Performance Technology
- Continuous Television Viewer Measuring Technology
- Credit Card Fraud Protection
- Data Encryption
- Digital Media Transmission, or DMT®
- Dynamic Manufacturing Modeling
- Enhanced Internet Navigation
- Hearing Aid ECS
- High Quality Image Processing
- High Resolution Optics
- Image Resolution Enhancement
- Information Monitoring Technology
- Interactive Television
- Laptop Connectivity
- Microprocessor Enhancement
- Multi-Dimensional Bar Codes
- Network Data Back-Up
- Picture Archiving & Communication Systems
- Product Activation
- Resource Scheduling
- Rotational Video Imaging
- Spreadsheet Automation
- User Activated Internet Advertising
- Web Conferencing & Collaboration Software Technology

On December 11, 2002, our stockholders voted in favor of a recapitalization transaction, which became effective on December 13, 2002, whereby we created two new classes of common stock called Acacia Research-CombiMatrix common stock, or AR-CombiMatrix stock, and Acacia Research-Acacia Technologies common stock, or AR-Acacia Technologies stock, and divided our existing Acacia Research Corporation common stock into shares of the two new classes of common stock. AR-CombiMatrix stock is intended to reflect separately the performance of Acacia Research Corporation's CombiMatrix group. AR-Acacia Technologies stock is intended to reflect separately the performance of Acacia Research Corporation's Acacia Technologies group. Although the AR-CombiMatrix stock and the AR-Acacia Technologies 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. As a result, holders of Acacia Research-Acacia Technologies stock and Acacia Research-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 group could be subject to the liabilities of the other group. Included in the CombiMatrix group and the Acacia Technologies group are certain wholly owned subsidiaries that are not material, quantitatively or qualitatively, either individually or in the aggregate, to either group, or to Acacia Research Corporation as a whole.

In January 2006, our board of directors approved a plan for our wholly owned subsidiary, CombiMatrix Corporation, to become an independent public company. We expect to complete the transaction in the third quarter of 2006, subject, however, to determining that there are no significant negative tax consequences to our company or our shareholders and completing the required filings with the Securities and Exchange Commission, or SEC. If the conditions are met, 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, which will register its common stock under the Securities and Exchange Act of 1934. Following the redemption, CombiMatrix Corporation will apply to list its shares for trading on a national exchange.

Acacia Research Corporation, a Delaware corporation, was originally incorporated in California in January 1993 and reincorporated in Delaware in December 1999. Our website address is [www.acaciares.com](http://www.acaciares.com). Our principal executive office is located at 500 Newport Center Drive, 7th Floor, Newport Beach, California 92660. Our telephone number is (949) 480-8300.



## **RISK FACTORS**

*An investment in our stock involves a number of risks. Before making a decision to purchase our securities, you should carefully consider all of the risks described in this prospectus. If any of the risks discussed in this prospectus actually occur, our business, financial condition and results of operations could be materially adversely affected. If this were to occur, the trading price of our securities could decline significantly and you may lose all or part of your investment.*

### **GENERAL RISKS**

#### **We have a history of losses and will probably incur additional losses in the future.**

We have sustained substantial losses since our inception resulting in an accumulated deficit, as of December 31, 2005, of \$206.9 million on a consolidated basis. We may never become profitable, or if we do, we may not be able to sustain profitability. We expect to incur significant research and development, marketing, general and administrative and legal expenses. As a result, it is more likely than not that we will incur losses for the foreseeable future.

#### **If we, or our subsidiaries, encounter unforeseen difficulties and cannot obtain additional funding on favorable terms, our business may suffer.**

Acacia Research Corporation's consolidated cash and cash equivalents along with short-term investments totaled \$59.2 million at December 31, 2005.

To date, the CombiMatrix group has relied primarily upon selling equity securities, as well as payments from strategic partners, to generate the funds needed to finance the implementation of the CombiMatrix group's business strategies. To date, the Acacia Technologies group has relied primarily upon selling of equity securities and payments from our licensees to generate the funds needed to finance the operations of the Acacia Technologies group.

We cannot assure you that we will not encounter unforeseen difficulties, including the outside influences identified above, that may deplete our capital resources more rapidly than anticipated. As a result, our subsidiary companies may be required to obtain additional financing through bank borrowings, debt or equity financings or otherwise, which would require us to make additional investments or face a dilution of our equity interests. Any efforts to seek additional funds could be made through equity, debt or other external financings. Nevertheless, we cannot assure that additional funding will be available on favorable terms, if at all. If we fail to obtain additional funding when needed for our subsidiary companies and ourselves, we may not be able to execute our business plans and our business may suffer.

#### **Because we have a limited operating history, we cannot assure that our operations will be profitable.**

We commenced operations in 1993 and, accordingly, have a limited operating history. In addition, certain of our subsidiary companies are in the early stages of development and/or operations and have limited operating histories. We also recently acquired eleven (11) new subsidiaries, and although we conducted customary due diligence before completing the acquisition, we cannot assure that our projections for profitability will be accurate because of our limited history with these new companies. You should consider our prospects in light of the risks, expenses and difficulties frequently encountered by companies with such limited operating histories. Since we have a limited operating history, we cannot assure you that our operations will be profitable or that we will generate sufficient revenues to meet our expenditures and support our activities.

We have sustained substantial losses since our inception resulting in an accumulated deficit as of December 31, 2005, of \$206.9 million on a consolidated basis. If we continue to incur operating losses in future periods, we may not have

enough money to expand our business and our subsidiary companies' businesses in the future.

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

Our growth has placed, and is expected to continue to place, a strain on our managerial, operational and financial resources. Further, as our subsidiary companies' businesses grow, we will be required to manage multiple relationships. Any further growth by us or our subsidiary companies or an increase in the number of our strategic relationships will increase this strain on our managerial, operational and financial resources. This strain may inhibit our ability to achieve the rapid execution necessary to successfully implement our business plan.

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

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

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

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

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

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

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

- section 203 of the Delaware General Corporation Law, which prohibits a merger with a 15%-or-greater stockholder, such as a party that has completed a successful tender offer, until three years after that party became a 15%-or-greater stockholder;
- amendment of our bylaws by the stockholders requires a two-thirds approval of the outstanding shares;
- the authorization in our certificate of incorporation of undesignated preferred stock, which could be issued without stockholder approval in a manner designed to prevent or discourage a takeover;
- provisions in our bylaws eliminating stockholders' rights to call a special meeting of stockholders, which could make it more difficult for stockholders to wage a proxy contest for control of our board of directors or to vote to repeal any of the anti-takeover provisions contained in our certificate of incorporation and bylaws; and
- the division of our board of directors into three classes with staggered terms for each class, which could make it more difficult for an outsider to gain control of our board of directors.

Such potential obstacles to a takeover could adversely affect the ability of our stockholders to receive a premium price for their stock in the event another company wants to acquire us.

**We may incur increased costs as a result of recently enacted and proposed changes in laws and regulations relating to corporate governance matters.**

Recently enacted and proposed changes in the laws and regulations affecting public companies, including the provisions of the Sarbanes-Oxley Act of 2002 and rules adopted or proposed by the Securities and Exchange Commission and by NASDAQ, will result in increased costs to us as we evaluate the implications of any new rules and respond to their requirements. New rules could make it more difficult or more costly for us to obtain certain types of insurance, including director and officer liability insurance, and we may be forced to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. The impact of these events could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, our board committees or as executive officers. We cannot predict or estimate the amount of the additional costs we may incur or the timing of such costs to comply with any new rules and regulations.

## **RISKS RELATING TO THE COMBIMATRIX GROUP**

*The risk factors beginning on this page discuss risks relating to the CombiMatrix group. Because each holder of AR-CombiMatrix stock is also a holder of the common stock of one company, Acacia Research Corporation, the risks associated with the Acacia Technologies group could affect our AR-CombiMatrix stock. As such, we urge you to read carefully the section “Risks Relating to the Acacia Technologies Group” below.*

**Because our CombiMatrix group business operations are subject to many uncontrollable outside influences, it may not succeed.**

Our CombiMatrix group's business operations are subject to numerous risks from outside influences, including the following:

- *Technological advances may make our CombiMatrix group semiconductor based array technology obsolete or less competitive, and as a result, our revenue and the value of our assets could become obsolete or less competitive.*

Our CombiMatrix group products and services are dependent upon our semiconductor based array technology. The semiconductor based array technology is an advancement in conventional arrays that are used for the same purpose. Current array technologies have revolutionized drug discovery and development, and we believe that our CombiMatrix group's array technology provides characteristics, including flexibility, superior cost metrics, and performance, which address certain needs of the life sciences market which are not addressed by conventional arrays and offers the latest in technological advances in this area. Our products and services are substantially dependent upon our ability to offer the latest in semiconductor based array technology in the SNP genotyping, gene expression profiling and proteomic markets. We believe technological advances of conventional arrays and semiconductor based arrays are currently being developed by our existing competition and potential new competitors in the market, including Affymetrix, Inc., Agilent Technologies, Inc., Applied Biosystems, Inc., Becton, Dickinson and Company, CIPHERGEN Biosystems, Inc., Gene Logic Inc., Illumina, Inc., Johnson & Johnson, Nanogen, Inc., Orchid Biosciences, Inc., Roche Diagnostics GmbH and Sequenom, Inc. We also expect to face additional competition from new market entrants and consolidation of our existing competitors. Many of the CombiMatrix group's competitors have existing strategic relationships with major pharmaceutical and biotechnology companies, greater commercial experience and substantially greater financial and personnel resources than we do. We expect new competitors to emerge and the intensity of competition to increase in the future. If these companies are able to offer technological advances to conventional arrays or semiconductor based arrays, our products may become less valuable or even obsolete. While we continue to invest resources in research and development to enhance the technology of our products and services, we cannot provide any assurance that our competitors or new competitors will not enter the market with the same or similar technological advances before we are able to do so.

- *New environmental regulation may materially increase the net losses of our CombiMatrix group*

The CombiMatrix group's operations involve the use, transportation, storage and disposal of hazardous substances, and as a result it is subject to environmental and health and safety laws and regulations. Any changes in these laws and regulations could increase the CombiMatrix group's compliance costs, and as a result, could materially increase the net losses of our CombiMatrix group.

- *Our technologies face uncertain market value*

Our CombiMatrix group includes the following technologies and products that were recently introduced into the market: CustomArray™, DNA Microarray, 12K DNA expression array and related products, Design-on-Demand™ Arrays, and NanoArray™ technology and our Bench-Top DNA Microarray Synthesizer for CustomArray™. These technologies and products have not gained widespread market acceptance, and we cannot provide any assurance that the increase, if any, in market acceptance of these technologies and products will meet or exceed our expectations.

Further, our CombiMatrix group is currently developing the following technologies and products that have not yet been introduced into the market: (a) microarray technology for the detection of biological threat agents, (b) molecular diagnostics drug discovery and development using the CustomArray™ platform, and (c) additional products for the research and development and diagnostics markets including higher density arrays. The level of market acceptance of these technologies and products will have a significant impact upon our results of operations, and we cannot provide any assurance that the increase, if any, in market acceptance of these technologies and products will meet or exceed our expectations.

- *The foregoing outside influences may affect other risk factors described in this Prospectus*

Any one of the foregoing outside influences may cause our company to need additional financing to meet the challenges presented or to compensate for a loss in revenue, and we may not be able to obtain the needed financing. See the heading “If we, or our subsidiaries, encounter unforeseen difficulties and cannot obtain additional funding on favorable terms, our business may suffer” below. Further, any one of the foregoing outside influences affecting the CombiMatrix group could make it less likely that our CombiMatrix group will be able to gain acceptance of its array technology by researchers in the pharmaceutical, biotechnology and academic communities. See the heading “If the CombiMatrix group’s new and unproven technology is not used by researchers in the pharmaceutical, biotechnology and academic communities, its business will suffer” below.

**The CombiMatrix group has a history of losses and expects to incur additional losses in the future.**

The CombiMatrix group has sustained substantial losses since its inception. The CombiMatrix group may never become profitable, or if it does, it may never be able to sustain profitability. We expect the CombiMatrix group to incur significant research and development, marketing, general and administrative expenses. As a result, we expect the CombiMatrix group to incur losses for the foreseeable future.

**The CombiMatrix group must enter into new strategic partnerships to generate revenue consistent with its operating history as a result of the completion of the relationship with Roche Diagnostics GmbH.**

In March 2004, the CombiMatrix group completed all phases of its research and development agreement with Roche Diagnostics GmbH (“Roche”). As a result of completing all of its obligations under this agreement and in accordance with the CombiMatrix group’s revenue recognition policies for multiple-element arrangements, the CombiMatrix group recognized all previously deferred Roche related contract revenues totaling \$17,302,000 during the first quarter of 2004. To date, the CombiMatrix group has relied primarily upon selling equity securities, as well as payments from strategic partners, to generate the funds needed to finance the implementation of the CombiMatrix group’s business strategies. The CombiMatrix group has historically been dependent on its arrangements with Roche, and has relied upon payments by Roche and other partners for a majority of its working capital. The CombiMatrix group intends to enter into additional strategic partnerships to develop and commercialize future products. The CombiMatrix group is deploying unproven technologies and continues to develop its commercial products. There can be no assurance that the CombiMatrix group will be able to implement its future plans. Failure by management to achieve its plans would have a material adverse effect on the CombiMatrix group’s and Acacia Research Corporation’s ability to achieve its intended business objectives.

**The CombiMatrix group may fail to meet market expectations because of fluctuations in its quarterly operating results, which could cause its stock price to decline.**

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

- its unpredictable revenue sources, as described below;
- the nature, pricing and timing of the CombiMatrix group’s and its competitors’ products;
-

changes in the CombiMatrix group's and its competitors' research and development budgets;

- expenses related to, and the CombiMatrix group's ability to comply with, governmental regulations of its products and processes; and
- expenses related to, and the results of, patent filings and other proceedings relating to intellectual property rights.



The CombiMatrix group anticipates significant fixed expenses due in part to its need to continue to invest in product development. It may be unable to adjust its expenditures if revenues in a particular period fail to meet its expectations, which would harm its operating results for that period. As a result of these fluctuations, the CombiMatrix group believes that period-to-period comparisons of the CombiMatrix group's financial results will not necessarily be meaningful, and you should not rely on these comparisons as an indication of its future performance.

**The CombiMatrix group's revenues will be unpredictable, and this may harm its financial condition.**

The amount and timing of revenues that the CombiMatrix group may realize from its business will be unpredictable because:

- whether products and services are commercialized and generate revenues depends, in part, on the efforts and timing of its potential customers; and
- its sales cycles may be lengthy.

As a result, the CombiMatrix group's revenues may vary significantly from quarter to quarter, which could make its business difficult to manage and cause its quarterly results to be below market expectations. If this happens, the price of the CombiMatrix group's common stock may decline significantly.

**Technology company stock prices are especially volatile, and this volatility may depress the price of our AR-CombiMatrix stock.**

The stock market has experienced significant price and volume fluctuations, and the market prices of technology companies, particularly biotechnology companies, has been highly volatile. In addition, our stock has historically experienced greater price fluctuations than the biotechnology index of other Nasdaq listed stock. We believe that various factors may cause the market price of our AR-CombiMatrix stock to fluctuate, perhaps substantially, including, among others, announcements of:

- its or its competitors' technological innovations;
- developments or disputes concerning patents or proprietary rights;
- supply, manufacturing or distribution disruptions or other similar problems;
- proposed laws regulating participants in the biotechnology industry;
- developments in relationships with collaborative partners or customers;
- its failure to meet or exceed securities analysts' expectations of its financial results; or
- a change in financial estimates or securities analysts' recommendations.

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

**The CombiMatrix group is deploying new and unproven technologies which makes evaluation of its business and prospects difficult, and it may be forced to cease operations if it does not develop commercially successful products.**

The CombiMatrix group has not proven its ability to commercialize products on a large scale. In order to successfully commercialize products on a large scale, it will have to make significant investments, including investments in research and development and testing, to demonstrate their technical benefits and cost-effectiveness. Problems frequently encountered in connection with the commercialization of products using new and unproven technologies might limit its ability to develop and commercialize its products. For example, the CombiMatrix group's products may be found to be ineffective, unreliable or otherwise unsatisfactory to potential customers. The CombiMatrix group may experience unforeseen technical complications in the processes it uses to develop, manufacture, customize or receive orders for its products. These complications could materially delay or limit the use of products the CombiMatrix group attempts to commercialize, substantially increase the anticipated cost of its products or prevent it from implementing its processes at appropriate quality and scale levels, thereby causing its business to suffer.

**The CombiMatrix group may need to raise additional capital in the future, and if additional capital is not available on acceptable terms, the CombiMatrix group may have to curtail or cease operations.**

The CombiMatrix group's future capital requirements will be substantial and will depend on many factors including how quickly it commercializes its products, the progress and scope of its collaborative and independent research and development projects, the filing, prosecution, enforcement and defense of patent claims and the need to obtain regulatory approval for certain products in the United States or elsewhere. Changes may occur that would cause the CombiMatrix group's available capital resources to be consumed significantly sooner than it expects.

The CombiMatrix group may be unable to raise sufficient additional capital on favorable terms or at all. If it fails to do so, it may have to curtail or cease operations or enter into agreements requiring it to relinquish rights to certain technologies, products or markets because it will not have the capital necessary to exploit them.

**If the CombiMatrix group does not enter into successful partnerships and collaborations with other companies, it may not be able to fully develop its technologies or products, and its business would be harmed.**

Since the CombiMatrix group does not possess all of the resources necessary to develop and commercialize products that may result from its technologies on a mass scale, it will need either to grow its sales, marketing and support group or make appropriate arrangements with strategic partners to market, sell and support its products. The CombiMatrix group believes that it will have to enter into additional strategic partnerships to develop and commercialize future products. If it does not enter into adequate agreements, or if its existing arrangements or future agreements are not successful, its ability to develop and commercialize products will be impacted negatively, and its revenues will be adversely affected.

Historically, the CombiMatrix group was substantially dependent on its arrangement with Roche. The CombiMatrix group relied on payments by Roche to fund the majority of its resources engaged in fulfilling its contractual obligations to Roche. Roche's primary service to the CombiMatrix group is to distribute its technology platform. If the CombiMatrix group were to lose its relationship with Roche, the CombiMatrix group would continue to distribute its technology platform itself or be required to establish a distribution agreement with other partners. This could prove difficult, time-consuming and expensive, and the CombiMatrix group may not be successful in achieving this objective.

**The CombiMatrix group has limited experience commercially manufacturing, marketing or selling any of its potential products, and unless it develops these capabilities, it may not be successful.**

Even if the CombiMatrix group is able to develop its products for commercial release on a large-scale, it has limited experience in manufacturing its products in the volumes that will be necessary for it to achieve commercial sales and in marketing or selling its products to potential customers. We cannot assure you that the CombiMatrix group will be able to commercially produce its products on a timely basis, in sufficient quantities or on commercially reasonable terms.

**The CombiMatrix group faces intense competition and we cannot assure you that it will be successful.**

The CombiMatrix group expects to compete with companies that design, manufacture and market instruments for analysis of genetic variation and function and other applications using established sequential and parallel testing technologies. The CombiMatrix group is also aware of other biotechnology companies that have or are developing testing technologies for the SNP genotyping, gene expression profiling and proteomic markets. The CombiMatrix group anticipates that it will face increased competition in the future as new companies enter the market with new technologies and its competitors improve their current products.

The markets for the CombiMatrix group's products are characterized by rapidly changing technology, evolving industry standards, changes in customer needs, emerging competition and new product introductions. One or more of the CombiMatrix group's competitors may offer technology superior to those of the CombiMatrix group and render its technology obsolete or uneconomical. Many of its competitors have greater financial and personnel resources and more experience in marketing, sales and research and development than it has. Some of its competitors currently offer arrays with greater density than it does and have rights to intellectual property, such as genomic information or proprietary technology, which provides them with a competitive advantage. If the CombiMatrix group were not able to compete successfully, its business and financial condition would be materially harmed.

**If the CombiMatrix group's new and unproven technology is not used by researchers in the pharmaceutical, biotechnology and academic communities, its business will suffer.**

The CombiMatrix group's products may not gain market acceptance. In that event, it is unlikely that its business will succeed. Biotechnology and pharmaceutical companies and academic research centers have historically analyzed genetic variation and function using a variety of technologies, and many of them have made significant capital investments in existing technologies. Compared to existing technologies, the CombiMatrix group's technologies are new and unproven. In order to be successful, its products must meet the commercial requirements of the biotechnology, pharmaceutical and academic communities as tools for the large-scale analysis of genetic variation and function. Market acceptance will depend on many factors, including:

- the development of a market for its tools for the analysis of genetic variation and function, the study of proteins and other purposes;
- the benefits and cost-effectiveness of its products relative to others available in the market;
- its ability to manufacture products in sufficient quantities with acceptable quality and reliability and at an acceptable cost;
- its ability to develop and market additional products and enhancements to existing products that are responsive to the changing needs of its customers;
- the willingness and ability of customers to adopt new technologies requiring capital investments or the reluctance of customers to change technologies in which they have made a significant investment; and
- the willingness of customers to transmit test data and permit the CombiMatrix group to transmit test results over the Internet, which will be a necessary component of its product and services packages unless customers purchase or license its equipment for use in their own facilities.

**If the market for analysis of genomic information does not develop or if genomic information is not available to the CombiMatrix group's potential customers, its business will not succeed.**