

ACACIA RESEARCH CORP
Form 10-K
February 26, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2009

OR

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

FOR THE TRANSITION PERIOD FROM TO .

Commission File Number 0-26068

ACACIA RESEARCH CORPORATION
(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of
incorporation organization)

95-4405754

(I.R.S. Employer
Identification No.)

500 NEWPORT CENTER DRIVE, NEWPORT BEACH, 92660
CA

(Address of principal executive offices)

(Zip Code)

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

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

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

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

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

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

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☒

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

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

Large accelerated filer ☐

Accelerated filer ☒

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

Smaller reporting company ☐

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

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant, computed by reference to the last sale price of such stock reported on The NASDAQ Global Market, as of June 30, 2009, was approximately \$236,617,000. (All executive officers and directors of the registrant are considered affiliates.)

As of February 23, 2010, 33,148,984 shares of common stock were issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for its Annual Meeting of Stockholders to be filed with the Commission within 120 days after the close of its fiscal year are incorporated by reference into Part III.

ACACIA RESEARCH CORPORATION
FORM 10-K ANNUAL REPORT
FISCAL YEAR ENDED DECEMBER 31, 2009
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PART I

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

This report contains forward-looking statements within the meaning of the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995. Reference is made in particular to the description of our plans and objectives for future operations, assumptions underlying such plans and objectives, and other forward-looking statements included in this report. Such statements may be identified by the use of forward-looking terminology such as “may,” “will,” “expect,” “believe,” “estimate,” “anticipate,” “intend,” “continue,” or similar terms, variations of such terms negative of such terms. Such statements are based on management’s current expectations and are subject to a number of factors and uncertainties, which could cause actual results to differ materially from those described in the forward-looking statements. Such statements address future events and conditions concerning product development, capital expenditures, earnings, litigation, regulatory matters, markets for products and services, liquidity and capital resources and accounting matters. Actual results in each case could differ materially from those anticipated in such statements by reason of factors such as future economic conditions, changes in consumer demand, legislative, regulatory and competitive developments in markets in which we and our subsidiaries operate, and other circumstances affecting anticipated revenues and costs, as more fully disclosed in our discussion of risk factors incorporated by reference in Item 1A. of Part I of this report. We expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. Additional factors that could cause such results to differ materially from those described in the forward-looking statements are set forth in connection with the forward-looking statements.

Item 1. BUSINESS

General

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

We are a leader in licensing patented technologies and have established a proven track record of licensing success with over 740 license agreements executed to date, across 60 of our technology license programs. Currently, on a consolidated basis, our operating subsidiaries own or control the rights to over 140 patent portfolios, which include U.S. patents and certain foreign counterparts, covering technologies used in a wide variety of industries.

CombiMatrix Group Split-Off Transaction and Related Discontinued Operations. In January 2006, our board of directors approved a plan for our former wholly owned subsidiary, CombiMatrix Corporation, or CombiMatrix, the primary component of our life science business, known as the CombiMatrix group, to become an independent publicly-held company. On August 15, 2007, or the Redemption Date, CombiMatrix was split-off from us through the redemption of all outstanding shares of Acacia Research-CombiMatrix common stock in exchange for the distribution of new shares of CombiMatrix common stock, on a pro-rata basis, to the holders of Acacia Research-CombiMatrix common stock on the Redemption Date. We refer to this transaction as the Split-Off

Transaction. Subsequent to the Redemption Date, we no longer own any equity interests in CombiMatrix and the CombiMatrix group is no longer one of our business groups. Subsequent to the Split-Off Transaction, our only business is our intellectual property licensing business.

Refer to Note 11 to our consolidated financial statements, included elsewhere herein, for information regarding presentation of the assets, liabilities, results of operations and cash flows for the CombiMatrix group as “Discontinued Operations,” for all periods presented, in accordance with guidance set forth in Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or ASC, Topic 205-20 “Discontinued Operations,” or ASC Topic 205-20.

Capital Structure. Pursuant to the terms of the Split-Off Transaction, all outstanding shares of Acacia Research-CombiMatrix common stock were redeemed, and all rights of holders of Acacia Research-CombiMatrix common stock ceased as of the Redemption Date, except for the right, upon the surrender to the exchange agent of shares of Acacia Research-CombiMatrix common stock, to receive new shares of CombiMatrix common stock. As a result of, and immediately following, the consummation of the Split-Off Transaction, our only class of common stock outstanding was our Acacia Research-Acacia Technologies common stock.

On May 20, 2008, our stockholders approved an amendment and restatement of our Certificate of Incorporation to eliminate all references to Acacia Research-CombiMatrix common stock and all provisions relating to the rights and obligations of the Acacia Research-CombiMatrix common stock. In addition, the amendment and restatement changed the name of the “Acacia Research-Acacia Technologies common stock” to “common stock,” and our common stock is the only class of common stock authorized and issuable.

Other

We were originally incorporated in California in January 1993 and reincorporated in Delaware in December 1999. Our website address is www.acaciaresearch.com. We make our filings with the Securities and Exchange Commission, or the SEC, including our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports, available free of charge on our website as soon as reasonably practicable after we file these reports. In addition, we post the following information on our website:

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

The public may read and copy any materials that we file with the SEC at the SEC’s Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Also, the SEC maintains an Internet website that contains reports, proxy and information statements, and other information regarding issuers, including us, that file electronically with the SEC. The public can obtain any documents that we file with the SEC at <http://www.sec.gov>.

BUSINESS OVERVIEW

Intellectual Property Licensing Business

Our operating subsidiaries acquire, develop, license and enforce patented technologies. Our operating subsidiaries generate license fee revenues and related cash flows from the granting of licenses for the use of patented technologies that our operating subsidiaries own or control. Our operating subsidiaries assist patent owners with the prosecution and development of their patent portfolios, the protection of their patented inventions from unauthorized use, the generation of licensing revenue from users of their patented technologies and, if necessary, with the enforcement against unauthorized users of their patented technologies. Currently, on a consolidated basis, our operating subsidiaries own or control the rights to over 140 patent portfolios, which include U.S. patents and certain foreign counterparts, covering technologies used in a wide variety of industries. Refer to “Patented Technologies” below for a partial summary of patent portfolios owned or controlled by certain of our operating subsidiaries.

We are a leader in patent licensing and our operating subsidiaries have established a proven track record of licensing success with more than 740 license agreements executed to date. To date, on a consolidated basis, we have generated revenues from 60 of our technology licensing and enforcement programs. Our professional staff includes in-house patent attorneys, licensing executives, engineers and business development executives.

Our partners are primarily individual inventors and small companies who have limited resources and/or expertise to effectively address the unauthorized use of their patented technologies, and also include large companies seeking to effectively and efficiently monetize their portfolio of patented technologies. In a typical partnering arrangement, our operating subsidiary will acquire a patent portfolio, or acquire rights to a patent portfolio, with our partner receiving an upfront payment for the purchase of the patent portfolio or patent portfolio rights, or receiving a percentage of our operating subsidiaries net recoveries from the licensing and enforcement of the patent portfolio, or a combination of the two.

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

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

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

Business Model and Strategy

Overview

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

Key Elements of Business Strategy

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

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

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

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

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

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

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

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

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

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

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

- Purchase or Acquire the Rights to Patented Technologies

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

- Successfully License and Enforce Patents with Significant Royalty Potential

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

Patented Technologies

Currently, on a consolidated basis, our operating subsidiaries own or control the rights to over 140 patent portfolios, with patent expiration dates ranging from 2010 to 2029, and covering technologies used in a wide variety of industries, including the following:

- | | | |
|---|---|---|
| • Aligned Wafer Bonding | • Enterprise Content Management | • Optical Switching |
| • Audio Communications Fraud Detection | • Facilities Operation Management System | • Parallel Processing with Shared Memory |
| • Audio Storage and Retrieval System | • File Locking in Shared Storage Networks | • Peer to Peer Communications |
| • Audio Video Enhancement & Synchronization | • Flash Memory | • Physical Access Control |
| • Authorized Spending Accounts | • Fluid Flow Control and Monitoring | • Picture Archiving & Communication Systems |
| • Automated Notification of Tax Return Status | • Hearing Aid ECS | • Pointing Device |
| • Automated Tax Reporting | • Heated Surgical Blades | • Pop-Up Internet Advertising |
| • Biosensor | • High Performance Computer Architecture | • Portable Credit Card Processing |
| • Broadcast Data Retrieval | • High Quality Image Processing | • Portable Storage Devices with Links |
| • Child-friendly Secure Mobile Phones | • High Resolution Optics | • Product Activation |
| • Chip-Stacking | • Image Resolution Enhancement | • Projector |
| • Color Correction for Video Graphics Systems | • Improved Anti-Trap Safety Technology for Vehicles | • Purifying Nucleic Acids |
| • Compact Disk | • Improved Commercial Print | • Radio Communication with Graphics |
| • Compiler | • Improved Lighting | • Records Management |
| • Computer Architecture and Power Management | • Improved Memory Manufacturing | • Relational Database Access |
| • Computer Graphics | • Improved Printing | • Remote Management of Imaging Devices |
| • Computer Memory Cache Coherency | • Information Portal Software | • Remote Video Camera |
| • Computer Simulations | • Integrated Access | • Resource Scheduling |

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- Consumer Rewards
- Continuous TV Viewer Measuring
- Copy Protection
- Credit Card Fraud Protection
- Data Encryption
- Database Access
- Database Management
- Database Retrieval
- Digital Newspaper Delivery
- Digital Signal Processing Architecture
- Digital Video Enhancement
- Digital Video Production
- Distributed Data Management and Synchronization
- DMT®
- Document Generation
- Document Retrieval Using Global Word Co-Occurrence Patterns
- Dynamic Manufacturing Modeling
- Ecommerce Pricing
- Electronic Address List Management
- Electronic Message Advertising
- Electronic Securities Trading
- Embedded Broadcast Data
- Encrypted Media & Playback Devices
- Enhanced DRAM Architecture
- Enhanced Internet Navigation
- Interactive Content in a Cable Distribution System
- Interactive Mapping
- Internet Radio Advertising
- Interstitial Internet Advertising
- Intraluminal Device Technology
- Laparoscopic Surgery
- Laptop Connectivity
- Lighting Ballast
- Location Based Services
- Manufacturing Data Transfer
- Medical Image Manipulation
- Medical Image Stabilization
- Medical Monitoring
- MEMS
- Messaging
- Micromirror Digital Display
- Microprocessor Enhancement
- Microprocessor Memory Management
- Mobile Computer Synchronization
- Multi-Dimensional Database Compression
- Network Monitoring
- Network Remote Access
- Online Ad Tracking
- Online Auction Guarantees
- Online Promotion
- Rule Based Monitoring
- Shape Memory Alloys
- Software Installation
- Software License Management
- Spreadsheet Automation
- Storage Technology
- Surgical Catheter
- Telematics
- Television Data Display
- Television Signal Scrambling
- Text Auto-Completion
- User Programmable Engine Control
- Vehicle Anti-Theft Parking Systems
- Vehicle Maintenance
- Vehicle Occupant Sensing
- Videoconferencing
- Virtual Computer Workspaces
- Virtual Server
- Website Crawling
- Wireless Data
- Wireless Digital Messaging
- Wireless LAN
- Workspace with Moving Viewpoint

Patent Enforcement Litigation

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

Competition

We expect to encounter increased competition in the area of patent acquisitions and enforcement. This includes an increase in the number of competitors seeking to acquire the same or similar patents and technologies that we may seek to acquire. Entities including Allied Security Trust, Altitude Capital Partners, Collier IP, Intellectual Ventures, Millennium Partners, Open Innovation Network, RPX Corporation and Rembrandt IP Management compete in acquiring rights to patents, and we expect more entities to enter the market.

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

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

Employees

As of December 31, 2009, on a consolidated basis, we had 44 full-time employees. Neither we nor any of our subsidiaries are a party to any collective bargaining agreement. We consider our employee relations to be good.

Item 1A. RISK FACTORS

An investment in our common stock involves a high degree risk. Before making a decision to invest in shares of our common stock, you should carefully consider the following risk factors, as well as the other information contained in this annual report. If any of the following risks actually occur, our business, financial condition, results of operations and prospectus could be materially adversely affected. If this were to occur, the trading price of our common stock could decline significantly and you may lose all or part of your investment in our common stock. All intellectual property acquisition, development, licensing and enforcement activities are conducted solely by certain of our wholly and majority-owned operating subsidiaries.

RISKS RELATED TO OUR BUSINESS

WE HAVE A HISTORY OF LOSSES AND WILL PROBABLY INCUR ADDITIONAL LOSSES IN THE FUTURE.

We have sustained substantial losses since our inception. We may never become profitable, or if we do, we may never be able to sustain profitability. As of December 31, 2009, our accumulated deficit was \$120.2 million. As of December 31, 2009, we had approximately \$53.9 million in cash and cash equivalents along with investments and working capital of \$36.0 million. We expect to incur significant legal, marketing, general and administrative expenses. As a result, it is more likely than not that we will incur losses for the foreseeable future. However, we believe our current cash and investments on hand will be sufficient to finance anticipated capital and operating requirements for at least the next twelve months.

IF WE, OR OUR SUBSIDIARIES, ENCOUNTER UNFORESEEN DIFFICULTIES AND CANNOT OBTAIN ADDITIONAL FUNDING ON FAVORABLE TERMS, OUR BUSINESS MAY SUFFER.

Our consolidated cash and cash equivalents along with investments totaled \$53.9 million and \$51.5 million at December 31, 2009 and 2008, respectively. To date, we have relied primarily upon selling of equity securities and payments from our licensees to generate the funds needed to finance our operations and the operations of our operating subsidiaries.

We may encounter unforeseen difficulties in the future, including the outside influences identified below, that may deplete our capital resources more rapidly than anticipated. As a result, we and or our subsidiary companies may be required to obtain additional financing in the future through bank borrowings, debt or equity financings or otherwise. If we are required to raise additional capital in the future, such additional financing may not be available on favorable terms, or at all, or may be dilutive to our existing stockholders. If we fail to obtain additional capital as and when needed for our subsidiary companies and ourselves, such failure could have a material adverse impact on our business plans and business.

FAILURE TO EFFECTIVELY MANAGE OUR GROWTH COULD PLACE STRAINS ON OUR MANAGERIAL, OPERATIONAL AND FINANCIAL RESOURCES AND COULD ADVERSELY AFFECT OUR BUSINESS AND OPERATING RESULTS.

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

OUR FUTURE SUCCESS DEPENDS ON OUR ABILITY TO EXPAND OUR ORGANIZATION TO MATCH THE GROWTH OF OUR SUBSIDIARIES.

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

OUR REVENUES WILL BE UNPREDICTABLE, AND THIS MAY HARM OUR FINANCIAL CONDITION.

From January 2005 to present, certain of our operating subsidiaries have continued to execute our business strategy of acquiring patent portfolios and accompanying patent rights. Currently, on a consolidated basis, our operating subsidiaries own or control the rights to over 140 patent portfolios, which include U.S. patents and certain foreign counterparts, covering technologies used in a wide variety of industries. These acquisitions continue to expand and diversify our revenue generating opportunities. We believe that our cash and cash equivalent balances, anticipated cash flow from operations and other external sources of available credit, will be sufficient to meet our cash requirements through at least March 2011, and for the foreseeable future. However, due to the nature of our licensing business and uncertainties regarding the amount and timing of the receipt of license fees from potential infringers, stemming primarily from uncertainties regarding the outcome of enforcement actions, rates of adoption of our patented technologies, the growth rates of our existing licensees and other factors, our revenues may vary significantly from quarter to quarter, which could make our business difficult to manage, adversely affect our business and operating results, cause our quarterly results to be below market expectations and adversely affect the market price of our common stock.

OUR OPERATING SUBSIDIARIES DEPEND UPON RELATIONSHIPS WITH OTHERS TO PROVIDE TECHNOLOGY-BASED OPPORTUNITIES THAT CAN DEVELOP INTO PROFITABLE ROYALTY-BEARING LICENSES, AND IF THEY ARE UNABLE TO MAINTAIN AND GENERATE NEW RELATIONSHIPS, THEN THEY MAY NOT BE ABLE TO SUSTAIN EXISTING LEVELS OF REVENUE OR INCREASE REVENUE.

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

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

THE SUCCESS OF OUR OPERATING SUBSIDIARIES DEPENDS IN PART UPON THEIR ABILITY TO RETAIN THE BEST LEGAL COUNSEL TO REPRESENT THEM IN PATENT ENFORCEMENT LITIGATION.

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

OUR OPERATING SUBSIDIARIES, IN CERTAIN CIRCUMSTANCES, RELY ON REPRESENTATIONS, WARRANTIES AND OPINIONS MADE BY THIRD PARTIES, THAT IF DETERMINED TO BE FALSE OR INACCURATE, MAY EXPOSE US AND OUR OPERATING SUBSIDIARIES TO CERTAIN MATERIAL LIABILITIES.

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

IN CONNECTION WITH PATENT ENFORCEMENT ACTIONS CONDUCTED BY CERTAIN OF OUR SUBSIDIARIES, A COURT MAY RULE THAT WE OR OUR SUBSIDIARIES HAVE VIOLATED CERTAIN STATUTORY, REGULATORY, FEDERAL, LOCAL OR GOVERNING RULES OR STANDARDS, WHICH MAY EXPOSE US AND OUR OPERATING SUBSIDIARIES TO CERTAIN MATERIAL LIABILITIES.

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

OUR INVESTMENTS IN AUCTION RATE SECURITIES ARE SUBJECT TO RISKS, INCLUDING THE CONTINUED FAILURE OF FUTURE AUCTIONS, WHICH MAY CAUSE US TO INCUR LOSSES OR HAVE REDUCED LIQUIDITY.

At December 31, 2009, our investments in marketable securities included certain auction rate securities. Our auction rate securities are investment grade quality and were in compliance with our investment policy when purchased. Historically, our auction rate securities were recorded at cost, which approximated their fair market value due to their variable interest rates, which typically reset every 7 to 35 days, despite the long-term nature of their stated contractual maturities. The Dutch auction process that resets the applicable interest rate at predetermined calendar intervals is intended to provide liquidity to the holder of auction rate securities by matching buyers and sellers within a market context enabling the holder to gain immediate liquidity by selling such interests at par or rolling over their investment. If there is an imbalance between buyers and sellers the risk of a failed auction exists. Due to recent liquidity issues in the global credit and capital markets, these securities experienced several failed auctions since February 2008. In such case of a failure, the auction rate securities continue to pay interest, at the maximum rate, in accordance with their terms, however, we may not be able to access the par value of the invested funds until a future auction of these investments is successful, the security is called by the issuer or a buyer is found outside of the auction process.

At December 31, 2009, the par value of auction rate securities collateralized by student loan portfolios totaled \$2.7 million. As a result of the liquidity issues associated with the failed auctions, we estimate that the fair value of these auction rate securities no longer approximates their par value. Due to the estimate that the market for these student loan collateralized instruments may take in excess of twelve months to fully recover, we have classified these investments as noncurrent in the accompanying December 31, 2009 consolidated balance sheet. In addition, as a result of our analysis of the estimated fair value of our student loan collateralized instruments, as described at Note 7 to the consolidated financial statements included elsewhere herein, we have recorded an other-than-temporary loss of \$296,000 and \$263,000 for our student loan collateralized instruments in the accompanying consolidated statements of operations for the years ended December 31, 2009 and 2008, respectively.

The capital and credit markets have been experiencing extreme volatility and disruption for more than 12 months, and at times, the volatility and disruption have reached unprecedented levels. In several cases, the markets have exerted downward pressure on stock prices and credit capacity for certain issuers. Given the deteriorating credit markets, and the sustained incidence of failure within the auction market since February 2008, we may be unable to liquidate a particular issue. Furthermore, if these market conditions were to persist despite our ability to hold such investments until maturity, we may be required to record additional impairment charges in a future period. The systemic failure of future auctions for auction rate securities may result in a loss of liquidity, substantial impairment to our investments, realization of substantial future losses, or a complete loss of the investment in the long-term which may have a material adverse effect on our business, results of operations, liquidity, and financial condition. Refer to Note 7 to our

accompanying consolidated financial statements, included elsewhere herein, for additional information about our investments in auction rate securities.

RISKS RELATED TO OUR INDUSTRY

OUR EXPOSURE TO UNCONTROLLABLE OUTSIDE INFLUENCES, INCLUDING NEW LEGISLATION, COURT RULINGS OR ACTIONS BY THE UNITED STATES PATENT AND TRADEMARK OFFICE, COULD ADVERSELY AFFECT OUR LICENSING AND ENFORCEMENT BUSINESS AND RESULTS OF OPERATIONS.

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

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

Our operating subsidiaries acquire patents with enforcement opportunities and are spending a significant amount of resources to enforce those patents. If new legislation, regulations or rules are implemented either by Congress, the U.S. Patent and Trademark Office, or USPTO, or the courts that impact the patent application process, the patent enforcement process or the rights of patent holders, these changes could negatively affect our expenses and revenue. For example, new rules regarding the burden of proof in patent enforcement actions could significantly increase the cost of our enforcement actions, and new standards or limitations on liability for patent infringement could negatively impact our revenue derived from such enforcement actions.

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

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

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

Certain of our operating subsidiaries hold and continue to acquire pending patents. We have identified a trend of increasing patent applications each year, which we believe is resulting in longer delays in obtaining approval of pending patent applications. The application delays could cause delays in recognizing revenue from these patents and could cause us to miss opportunities to license patents before other competing technologies are developed or introduced into the market. See the subheading “Competition is intense in the industries in which our subsidiaries do business and as a result, we may not be able to grow or maintain our market share for our technologies and patents,” below.

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

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

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

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

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

We expect to encounter competition in the area of patent acquisition and enforcement as the number of companies entering this market is increasing. This includes competitors seeking to acquire the same or similar patents and technologies that we may seek to acquire. Entities including Allied Security Trust, Altitude Capital Partners, Collier IP, Intellectual Ventures, Millennium Partners, Open Innovation Network, RPX Corporation and Rembrandt IP Management compete in acquiring rights to patents, and we expect more entities to enter the market. As new technological advances occur, many of our patented technologies may become obsolete before they are completely monetized. If we are unable to replace obsolete technologies with more technologically advanced patented technologies, then this obsolescence could have a negative effect on our ability to generate future revenues.

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

Our patented technologies face uncertain market value.

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

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

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

The foregoing outside influences may affect other risk factors described in this annual report.

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” above.

THE MARKETS SERVED BY OUR OPERATING SUBSIDIARIES ARE SUBJECT TO RAPID TECHNOLOGICAL CHANGE, AND IF OUR OPERATING SUBSIDIARIES ARE UNABLE TO DEVELOP AND ACQUIRE NEW TECHNOLOGIES AND PATENTS, OUR ABILITY TO GENERATE REVENUES COULD BE SUBSTANTIALLY IMPAIRED.

The markets served by our operating subsidiaries’ licensees frequently undergo transitions in which products rapidly incorporate new features and performance standards on an industry-wide basis. Products for communications applications, high-speed computing applications, as well as other applications covered by our operating subsidiaries’ intellectual property, are based on continually evolving industry standards. Our ability to compete in the future will, however, depend on our ability to identify and ensure compliance with evolving industry standards. This will require our continued efforts and success in acquiring new patent portfolios with licensing and enforcement opportunities.

While we expect for the foreseeable future to have sufficient liquidity and capital resources needed to maintain the level of acquisitions necessary to keep pace with these technological advances, outside influences may cause the need for greater liquidity and capital resources than expected, as described under the caption “Because our business operations are subject to many uncontrollable outside influences, we may not succeed” above. If we are unable to acquire new technologies and related patent portfolios, or to identify and ensure compliance with evolving industry standards, our ability to generate revenues could be substantially impaired and our business and financial condition could be materially harmed.

THE RECENT FINANCIAL CRISIS AND CURRENT UNCERTAINTY IN GLOBAL ECONOMIC CONDITIONS COULD NEGATIVELY AFFECT OUR BUSINESS, RESULTS OF OPERATIONS, AND FINANCIAL CONDITION

Our revenue-generating opportunities depend on the use of our patented technologies by existing and prospective licensees, the overall demand for the products and services of our licensees, and on the overall economic and financial health of our licensees. The recent financial crisis affecting the banking system and financial markets and the current uncertainty in global economic conditions have resulted in a tightening in the credit markets, a low level of liquidity in many financial markets, and extreme volatility in the credit, equity and fixed income markets. If the current worldwide economic downturn continues, many of our licensees' customers, which may rely on credit financing, may delay or reduce their purchases of our licensees' products and services. In addition, the use or adoption of our patented technologies is often based on current and forecasted demand for our licensees' products and services in the marketplace and may require companies to make significant initial commitments of capital and other resources. If the negative conditions in the global credit markets delay or prevent our licensees' and their customers' access to credit, overall consumer spending on the products and services of our licensees may decrease and the adoption or use of our patented technologies may slow, respectively. Further, if the markets in which our licensees' participate experience further economic downturns, as well as a slow recovery period, this could negatively impact our licensees' long-term sales and revenue generation, margins and operating expenses, which could impact the magnitude of revenues generated or projected to be generated by our licensees, which could have a material impact on our business, license fee generating opportunities, operating results and financial condition.

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

RISKS RELATED TO OUR COMMON STOCK

THE AVAILABILITY OF SHARES FOR SALE IN THE FUTURE COULD REDUCE THE MARKET PRICE OF OUR COMMON STOCK.

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

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

DELAWARE LAW AND OUR CHARTER DOCUMENTS CONTAIN PROVISIONS THAT COULD DISCOURAGE OR PREVENT A POTENTIAL TAKEOVER OF OUR COMPANY THAT MIGHT OTHERWISE RESULT IN OUR STOCKHOLDERS RECEIVING A PREMIUM OVER THE MARKET PRICE OF THEIR SHARES.

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

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

- amendment of our bylaws by the stockholders requires a two-thirds approval of the outstanding shares;
- the authorization in our certificate of incorporation of undesignated preferred stock, which could be issued without stockholder approval in a manner designed to prevent or discourage a takeover;
- provisions in our bylaws eliminating stockholders' rights to call a special meeting of stockholders, which could make it more difficult for stockholders to wage a proxy contest for control of our board of directors or to vote to repeal any of the anti-takeover provisions contained in our certificate of incorporation and bylaws; and
- the division of our board of directors into three classes with staggered terms for each class, which could make it more difficult for an outsider to gain control of our board of directors.

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

AS A RESULT OF THE REDEMPTION OF ACACIA RESEARCH-COMBIMATRIX COMMON STOCK FOR THE COMMON STOCK OF COMBIMATRIX CORPORATION, WE MAY BE SUBJECT TO CERTAIN TAX LIABILITY UNDER THE INTERNAL REVENUE CODE.

Our distribution of the common stock of CombiMatrix in the Split-Off Transaction will be tax-free to us if the distribution qualifies under Sections 368 and 355 of the Internal Revenue Code of 1986, as amended, or the Code. If the Split-Off Transaction fails to qualify under Section 355 of the Code, corporate tax would be payable by the consolidated group as of the date of the Split-Off Transaction, of which we are the common parent, based upon the difference between the aggregate fair market value of the assets of CombiMatrix's business and the adjusted tax bases of such business to us prior to the redemption.

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

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

FOLLOWING THE REDEMPTION OF ACACIA RESEARCH-COMBIMATRIX COMMON STOCK FOR THE COMMON STOCK OF COMBIMATRIX, WE MAY BE SUBJECT TO CERTAIN TAX LIABILITIES UNDER THE INTERNAL REVENUE CODE FOR ACTIONS TAKEN BY US OR COMBIMATRIX FOLLOWING THE REDEMPTION.

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

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

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

WE MAY FAIL TO MEET MARKET EXPECTATIONS BECAUSE OF FLUCTUATIONS IN QUARTERLY OPERATING RESULTS, WHICH COULD CAUSE THE PRICE OF OUR COMMON STOCK TO DECLINE.

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

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

- the timing of the receipt of periodic license fee payments and/or reports from licensees;
- fluctuations in the net number of active licensees period to period;
- costs related to acquisitions, alliances, licenses and other efforts to expand our operations;

- the timing of payments under the terms of any customer or license agreements into which our operating subsidiaries may enter; and
- expenses related to, and the timing and results of, patent filings and other enforcement proceedings relating to intellectual property rights, as more fully described in this section.

TECHNOLOGY COMPANY STOCK PRICES ARE ESPECIALLY VOLATILE, AND THIS VOLATILITY MAY DEPRESS THE PRICE OF OUR COMMON STOCK.

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

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

For example, the NASDAQ Computer Index had a range of \$585.69 - \$1,183.34 during the 52-weeks ended December 31, 2009 and the NASDAQ Composite Index had a range of \$1,265.52 - \$2,295.80 over the same period. Over the same period, our common stock fluctuated within a range of \$2.14 - \$9.64.

The financial crisis affecting the banking system and financial markets and the current uncertainty in global economic conditions, which began in late 2007 and continued throughout 2009 and into 2010, have resulted in a tightening in the credit markets, a low level of liquidity in many financial markets, and extreme volatility in the credit, equity and fixed income markets. As noted above, our stock price, like many other stocks, has fluctuated significantly recently and if investors have concerns that our business, operating results and financial condition will be negatively impacted by a continuing worldwide economic downturn, our stock price could continue to fluctuate significantly in future periods.

In addition, we believe that fluctuations in our stock price during applicable periods can also be impacted by court rulings and or other developments in our patent licensing and enforcement actions. Court rulings in patent

enforcement actions are often difficult to understand, even when favorable or neutral to the value of our patents and our overall business, and we believe that investors in the market may overreact, causing fluctuations in our stock prices that may not accurately reflect the impact of court rulings on our business operations and assets.

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

WE DO NOT ANTICIPATE DECLARING ANY CASH DIVIDENDS ON OUR COMMON STOCK.

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

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2.PROPERTIES

Our corporate, administrative and operational headquarters are located in Newport Beach, California where we lease approximately 18,302 square feet of office space, under a lease agreement that expires in February 2012. Certain of our operating subsidiaries also maintain additional leased office space in Frisco, Texas, Northbrook, Illinois, San Francisco, California, Atlanta, Georgia, San Diego, California, Brooklyn, New York and Santa Clara, California. Presently, certain of our operating subsidiaries are seeking additional office facilities in Texas. We believe that our facilities are adequate, suitable and of sufficient capacity to support our immediate needs.

Item 3.LEGAL PROCEEDINGS

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

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

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

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

Price Range of Common Stock

Our common stock commenced trading on The NASDAQ Global Market on December 16, 2002, under the symbol "ACTG." Prior to December 16, 2002, our only class of common stock began trading under the symbol "ACRI" on the NASDAQ National Market System on July 8, 1996.

Prior to the Split-Off Transaction. Prior to the Split-Off Transaction described above, we had two classes of common stock outstanding, our Acacia Research-Acacia Technologies common stock and our Acacia Research-CombiMatrix common stock. As a result of the Split-Off Transaction, all outstanding shares of Acacia Research-CombiMatrix common stock were redeemed, and all rights of holders of Acacia Research-CombiMatrix common stock ceased as of August 15, 2007. As a result of the consummation of the Split-Off Transaction, our only class of common stock outstanding is our common stock.

The markets for securities such as our common stock have historically experienced significant price and volume fluctuations during certain periods. These broad market fluctuations and other factors, such as new product and technology developments, business or regulatory trends in our industry and the investment markets generally, as well as economic conditions and quarterly variations in the results of our licensing and enforcement activities and our results of operations, may adversely affect the market price of our common stock.

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

	2009				2008			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
High	\$9.64	\$9.59	\$7.90	\$4.50	\$3.18	\$5.20	\$6.70	\$9.30
Low	\$6.81	\$6.77	\$3.82	\$2.14	\$1.87	\$2.98	\$4.20	\$4.58

STOCK PRICE PERFORMANCE GRAPH

The following stock price performance graph shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or the Exchange Act, or otherwise subject to the liabilities under that Section and shall not be deemed to be incorporated by reference into any of our filings under the Securities Act of 1933, as amended.

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

	2005	2006	2007	2008	2009
Acacia Research Corporation common stock	\$130	\$252	\$169	\$57	\$172
Nasdaq Composite Index	\$101	\$111	\$122	\$72	\$104
Dow Jones U.S. Technology Index	\$102	\$105	\$116	\$134	\$ 77

The graph covers the period from December 31, 2004 to December 31, 2009. Cumulative total returns are calculated assuming that \$100 was invested on December 31, 2004, in our common stock, in the NASDAQ Composite Index, and in the Dow Jones U.S. Technology Index, and that all dividends, if any, were reinvested. Refer to our Dividend Policy below. Stockholder returns over the indicated period should not be considered indicative of future stock prices or shareholder returns.

On February 23, 2010, there were approximately 120 owners of record of our common stock. The majority of the outstanding shares of our common stock are held by a nominee holder on behalf of an indeterminable number of ultimate beneficial owners.

Repurchase of Restricted Common Stock

In May 2009, our board of directors approved a restricted stock vesting net issuance program. Under the program, upon the vesting of unvested shares of restricted common stock, we withhold from fully vested shares of common stock otherwise deliverable to any employee-participant in our equity compensation programs, a number of whole shares of common stock having a fair market value (as determined by us as of the date of vesting) equal to the amount of tax required to be withheld by law, in order to satisfy our tax withholding obligations in connection with the vesting of such shares. Of a total of 580,600 shares of restricted stock vested between June 2009 and September 2009, 174,628 shares of common stock were withheld by us, in satisfaction of \$1.1 million in required withholding tax liability. Additional repurchases under the net issuance program are not anticipated at this time.

Dividend Policy

To date, we have not declared or paid any cash dividends with respect to our common stock, and the current policy of the board of directors is to retain earnings, if any, to provide for our growth and the growth of our operating subsidiaries. Consequently, we do not expect to pay any cash dividends in the foreseeable future. Further, there can be no assurance that our proposed operations will generate revenues and cash flow needed to declare a cash dividend or that we will have legally available funds to pay dividends.

Equity Compensation Plan Information

The following table provides information with respect to shares of our common stock issuable under our equity compensation plans as of December 31, 2009:

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options	(b) Weighted-average exercise price of outstanding options	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders			
2002 Acacia Technologies Stock Incentive Plan(1)	3,398,000	\$ 5.38	1,350,000
2007 Acacia Technologies Stock Incentive Plan(2)	50,000	\$ 16.01	542,000
Subtotal	3,448,000	\$ 5.54	1,892,000
Equity compensation plans not approved by security holders(3)			
	N/A	N/A	N/A
Total	3,448,000	\$ 5.54	1,892,000

(1) Our 2002 Acacia Technologies Stock Incentive Plan, as amended, or the 2002 Plan, allows for the granting of stock options and other awards to eligible individuals, which generally includes directors, officers, employees and consultants. The 2002 Plan does not segregate the number of securities remaining available for future issuance among stock options and other awards. The shares authorized for future issuance represents the total number of shares available through any combination of stock options or other awards. The share reserve under the 2002 Plan automatically increases on the first trading day in January each calendar year by an amount equal to three percent (3%) of the total number of shares of our common stock outstanding on the last trading day of December in the prior calendar year, but in no event will this annual increase exceed 500,000 shares and in no event will the total number of shares of common stock in the share reserve (as adjusted for all such annual increases) exceed twenty million shares. Column (a) excludes 1,093,000 in nonvested restricted stock awards and restricted stock units outstanding at December 31, 2009. Refer to Note 12 to our consolidated financial statements included elsewhere herein.

(2) Our 2007 Acacia Technologies Stock Incentive Plan, or the 2007 Plan, allows for the granting of stock options and other awards to eligible individuals, which generally includes directors, officers, employees and consultants, and was approved by security holders on May 15, 2007. The 2007 Plan does not segregate the number of securities remaining available for future issuance among stock options and other awards. The shares authorized for future issuance represents the total number of shares available through any combination of stock options or other awards. The initial share reserve under the 2007 Plan was 560,000 shares of our common stock. The share reserve under the 2007 Plan automatically increased on January 1, 2008 and 2009, by an amount equal to two percent (2%) of the total number of shares of our common stock outstanding on the last trading day of December in the prior calendar year. After January 1, 2009, no new additional shares will be added to the 2007 Plan without security holder approval (except for shares subject to outstanding awards that are forfeited or otherwise returned to the 2007 Plan). Column (a) excludes 604,000 in nonvested restricted stock awards outstanding at December 31,

2009. Refer to Note 12 to our consolidated financial statements included elsewhere herein.

- (3) We have not authorized the issuance of equity securities under any plan not approved by security holders.

Item 6.

SELECTED FINANCIAL DATA

The consolidated selected balance sheet data as of December 31, 2009 and 2008 and the consolidated selected statements of operations data for the years ended December 31, 2009, 2008 and 2007 set forth below have been derived from our audited consolidated financial statements included elsewhere herein, and should be read in conjunction with those financial statements (including notes thereto). The consolidated selected balance sheet data as of December 31, 2007, 2006 and 2005 and the consolidated selected statements of operations data for the years ended December 31, 2006 and 2005 have been derived from unaudited consolidated financial statements not included herein, but which were previously filed with the SEC.

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

	For the Years Ended December 31,				
	2009	2008	2007	2006	2005
License fee revenues	\$ 67,340	\$ 48,227	\$ 52,597	\$ 34,825	\$ 19,574
Inventor royalties and contingent legal fees expense - patents	31,618	27,424	29,224	17,159	11,331
Litigation and licensing expenses - patents	14,055	6,900	7,799	5,047	2,838
Amortization of patents	4,634	6,043	5,583	5,313	4,922
Marketing, general and administrative expenses (including non-cash stock compensation expense)	21,070	21,130	18,381	13,550	7,526
Research, consulting and other expenses - business development	1,689	933	886	306	201
Operating loss	(5,726)	(14,203)	(9,511)	(6,847)	(7,244)
Other income, net	302	570	2,359	1,524	1,071
Loss from continuing operations before provision for income taxes	(5,424)	(13,633)	(7,152)	(5,323)	(6,173)
Net loss from continuing operations including noncontrolling interests in operating subsidiary	(5,633)	(13,757)	(7,359)	(5,363)	(6,038)
Net income attributable to noncontrolling interests in operating subsidiary	(5,657)	-	-	-	-
Net loss from continuing operations attributable to Acacia Research Corporation	(11,290)	(13,757)	(7,359)	(5,363)	(6,038)
Discontinued operations - Split-off of CombiMatrix Corporation and other	-	-	(8,086)	(20,093)	(12,638)
Net loss	(11,290)	(13,757)	(15,445)	(25,456)	(18,676)

Loss per common share -
basic and diluted:

Loss from continuing
operations

Acacia Research

Corporation common stock	\$ (0.38)	\$ (0.47)	\$ (0.26)	\$ (0.19)	\$ (0.23)
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Discontinued operations -

Split-off of CombiMatrix

Corporation

Acacia Research -

CombiMatrix stock	-	-	\$ (0.14)	\$ (0.49)	\$ (0.37)
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Weighted average number
of common and potential
common shares used in
computation of income
(loss) per common share :

Acacia Research

Corporation common

stock:

Basic and diluted	29,914,801	29,423,998	28,503,314	27,547,651	26,630,732
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Acacia Research -

CombiMatrix stock:

Basic and diluted	-	-	55,862,707	40,605,038	33,678,603
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Consolidating Balance Sheet Data
(In thousands)

	2009	2008	At December 31, 2007	2006	2005
Total assets:					
Acacia Research Corporation	\$78,256	\$73,074	\$71,051	\$65,770	\$68,893
Discontinued operations - Split-off of CombiMatrix Corporation	-	-	-	44,214	52,541
Eliminations	-	-	-	(380)	-
Total	\$78,256	\$73,074	\$71,051	\$109,604	\$121,434
Total liabilities:					
Acacia Research Corporation	\$22,287	\$14,527	\$6,247	\$4,276	\$6,647
Discontinued operations - Split-off of CombiMatrix Corporation	-	-	-	11,399	7,443
Eliminations	-	-	-	(380)	-
Total	\$22,287	\$14,527	\$6,247	\$15,295	\$14,090
Noncontrolling interests in operating subsidiary:					
Acacia Research Corporation	\$2,507	\$-	\$-	\$-	\$443
Discontinued operations - Split-off of CombiMatrix Corporation	-	-	-	-	4
Total	\$2,507	\$-	\$-	\$-	\$447
Stockholders' equity:					
Acacia Research Corporation	\$53,462	\$58,547	\$64,804	\$61,494	\$61,803
Discontinued operations - Split-off of CombiMatrix Corporation	-	-	-	32,815	45,094
Total	\$53,462	\$58,547	\$64,804	\$94,309	\$106,897

Factors Affecting Comparability:

- During the fourth quarter of 2008, pursuant to the terms of the respective inventor agreements, our management elected to terminate our rights to exclusively license a patent portfolio. As such, the economic useful life of the patent-related intangible asset was reduced, resulting in the acceleration \$1,094,000 of amortization expense for the patent-related asset and an increase in amortization expense in 2008.
- Effective January 1, 2006, we adopted the provisions of ASC Topic 718, "Compensation - Stock Compensation," 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. Refer to Note 2 and Note 12 to our consolidated financial statements included elsewhere herein, for additional information and a description of the impact of ASC Topic 718 on our consolidated statements of operations data presented above. Non-cash stock compensation expense included in marketing, general and administrative expense was \$7,065,000, \$7,355,000, \$5,908,000 and \$3,946,000 in 2009, 2008, 2007 and 2006, respectively.
- We recorded an other than temporary impairment loss of \$47,000 and \$486,000 on certain auction rate securities held as of December 31, 2009 and December 31, 2008, respectively.
-

As a result of the Split-Off Transaction, as discussed above, we disposed of our investment in CombiMatrix. Refer to Note 11 to our consolidated financial statements, included elsewhere herein, for information regarding presentation of the assets, liabilities, results of operations and cash flows for the CombiMatrix group as “Discontinued Operations,” for all periods presented, in accordance with guidance set forth in ASC Topic 360.

- Refer to Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies” below for information regarding the change in accounting policy for term license agreements effective October 2009.

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

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

General

Our operating subsidiaries acquire, develop, license and enforce patented technologies. Our operating subsidiaries generate license fee revenues and related cash flows from the granting of licenses for the use of patented technologies that our operating subsidiaries own or control. Our operating subsidiaries assist patent owners with the prosecution and development of their patent portfolios, the protection of their patented inventions from unauthorized use, the generation of licensing revenue from users of their patented technologies and, if necessary, with the enforcement against unauthorized users of their patented technologies. We are a leader in licensing patented technologies and have established a proven track record of licensing success with over 740 license agreements executed to date, across 60 of our technology license programs. Currently, on a consolidated basis, our operating subsidiaries own or control the rights to over 140 patent portfolios, which include U.S. patents and certain foreign counterparts, covering technologies used in a wide variety of industries.

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

CombiMatrix Group Split-Off Transaction and Related Discontinued Operations. As discussed below under the caption "Discontinued Operations – Split-Off of CombiMatrix Corporation," the CombiMatrix group, which was previously presented as a separate reportable segment, was split-off from us effective August 15, 2007. As such, the historical results of operations for the CombiMatrix group in the accompanying consolidated financial statements are presented as part of our results from "Discontinued Operations" for the applicable historical periods presented. Subsequent to the Split-Off Transaction, our only business is our intellectual property licensing business.

Overview

Our operating activities during 2009, 2008 and 2007 were principally focused on the continued development, licensing and enforcement of the patent portfolios owned or controlled by our operating subsidiaries, including the continued pursuit of multiple ongoing technology licensing and enforcement programs and the commencement of new technology licensing and enforcement programs. In addition, we continued our focus on business development, including the acquisition of several additional patent portfolios by certain of our operating subsidiaries and the continued pursuit of additional opportunities to partner with patent owners and continue our unique intellectual property licensing, development and enforcement activities.

We recognized license fee revenues of \$67.3 million in 2009, a 40% increase compared to 2008 license fee revenues of \$48.2 million, and a 28% increase compared to 2007 license fee revenues of \$52.6 million.

Revenues for 2009 included license fees from 117 new licensing agreements covering 30 of our technology licensing and enforcement programs, as compared to 80 new licensing agreements covering 30 of our technology licensing and enforcement programs in 2008 and 91 new licensing agreements covering 16 of our technology licensing and enforcement programs in 2007. On a consolidated basis, our operating subsidiaries generated licensing revenues from 12 new technology licensing and enforcement programs during 2009, as compared to 20 new programs in 2008 and 8 new programs in 2007. As of December 31, 2009, we have generated revenues from 60 technology licensing and

enforcement programs, as compared to 48 programs as of December 31, 2008 and 28 programs as of December 31, 2007.

During 2009, we recorded initial license fee revenues from 12 new technology licensing programs, including our Database Access technology, Surgical Catheter technology, Encrypted Media & Playback Devices technology, Child-friendly Secure Mobile Phones technology, Heated Surgical Blades technology, Lighting Ballast technology, High Performance Computer Architecture technology, Online Promotion technology, Multi-Dimensional Database Compression technology, Document Generation technology, Internet Radio Advertising technology and our Virtual Server technology. Revenues for 2009 also included fees from the licensing of our DMT® technology, Telematics technology, Pop-up Internet Advertising technology, Audio Communications Fraud Detection technology, Picture Archiving & Communication Systems technology, Projector technology, Rule Based Monitoring technology, Credit Card Fraud Protection technology, Remote Management of Imaging Devices technology, Vehicle Maintenance technology, Medical Image Stabilization technology, Audio Video Enhancement & Synchronization technology, Location Based Services technology, eCommerce Pricing technology, High Quality Image Processing technology, Authorized Spending Accounts technology, Storage technology and Online Auction Guarantee technology.

During 2008, we recorded initial license fee revenues for 20 of our technology licensing programs, including our Vehicle Anti-Theft Parking Systems technology, Online Auction Guarantee technology, Projector technology, Web Personalization technology, Vehicle Maintenance technology, Physical Access Control technology, High Resolution Optics technology, Software License Management technology, Authorized Spending Accounts technology, Picture Archiving & Communications System technology, Video Editing technology, Electronic Message Advertising technology, Remote Management of Imaging Devices technology, High Quality Image Processing technology, Wireless Traffic Information technology, Medical Image Stabilization technology, Storage technology, Ecommerce Pricing technology, Location Based Services technology and File Locking in Shared Storage Networks technology. Revenues for 2008 also included fees from the licensing of our Audio Communications Fraud Detection technology, Audio Video Enhancement & Synchronization technology, Credit Card Fraud Protection technology, DMT® technology, Electronic Address List Management technology, Image Resolution Enhancement technology, Pop-up Internet Advertising technology, Portable Storage Devices with Links technology, Rule-Based Monitoring technology and Telematics technology.

During 2007, we recorded initial license fee revenues for 8 of our technology licensing programs, including our Portable Storage Devices with Links technology, Color Correction for Video Graphics Systems technology, Rule Based Monitoring technology, Spreadsheet Automation technology, Virtual Computer Workspace technology, Electronic Address List Management technology, Vehicle Magnetic Braking technology and our Telematics technology. Revenues for 2007 also included fees from the licensing of our DMT® technology, Audio/Video Enhancement and Synchronization technology, Image Resolution Enhancement technology, Credit Card Fraud Control technology, Multi-Dimensional Bar Code technology, Product Activation technology, Audio Communications Fraud Detection technology and our Pop-up Advertising technology.

Our revenues historically have fluctuated quarterly based on the number of patented technology portfolios owned or controlled by our operating subsidiaries, the timing and results of patent filings and other enforcement proceedings relating to our intellectual property rights, the number of active licensing programs, and the relative maturity of active licensing programs during the applicable periods. Additional factors impacting the amount of license fee revenues recognized each period are included below. Although license fee revenues from one or more of our patents or patent portfolios may be significant in a specific reporting period, we believe that none of our patents or patent portfolios are individually significant to our licensing and enforcement business as a whole.

We measure and assess the performance and growth of the patent licensing and enforcement business conducted by our operating subsidiaries based on consolidated license fee revenues recognized across all of our technology licensing and enforcement programs on a trailing twelve-month basis. Trailing twelve-month revenues totaled \$67.3 million as of December 31, 2009, as compared to \$65.7 million as of September 30, 2009, \$63.4 million as of June 30, 2009, \$56.1 million as of March 31, 2009, \$48.2 million as of December 31, 2008, and \$52.6 million as of December 31, 2007. In addition, we also measure and assess the performance and growth of the patent licensing and enforcement business conducted by our operating subsidiaries based on the number of patent portfolios owned or controlled by our operating subsidiaries on a consolidated basis. As of December 31, 2009, 2008 and 2007, on a consolidated basis, our operating subsidiaries owned or controlled the rights to approximately 135, 100 and 90 patent portfolios, respectively, which include U.S. patents and certain foreign counterparts, covering technologies used in a wide variety of industries.

The consolidated net loss for 2009 was \$11.3 million, as compared to \$13.8 million for 2008 and \$15.4 million for 2007. Results for 2009 included non-cash charges totaling \$11.7 million, comprised of non-cash stock compensation charges of \$7.1 million and non-cash patent amortization charges of \$4.6 million. Results for 2008 included non-cash charges of \$13.4 million, comprised of non-cash stock compensation charges of \$7.4 million and non-cash patent amortization charges of \$6.0 million. Results for 2007 included non-cash charges of \$11.5 million, comprised of non-cash stock compensation charges of \$5.9 million and non-cash patent amortization charges of \$5.6 million.

Marketing, general and administrative expenses for 2009 (including non-cash stock compensation charges of \$7.1 million) were \$21.1 million, as compared to \$21.1 million (including non-cash stock compensation charges of \$7.4 million) for 2008 and \$18.4 million (including non-cash stock compensation charges of \$5.9 million) for 2007. Excluding the impact of the decrease in non-cash stock compensation in 2009, as compared to 2008, marketing, general and administrative expenses remained relatively flat for the same periods. Marketing, general and administrative expenses increased during 2008, as compared to 2007, due primarily to the hiring of additional patent licensing, business development and engineering personnel and an increase in other personnel costs, an increase in non-cash stock compensation charges and an increase in corporate, general and administrative costs related to the growth of ongoing operations.

In the aggregate, inventor royalties, net income attributable to noncontrolling interests in operating subsidiary and contingent legal fees expenses for 2009 increased by 36%, as compared to 2008, and decreased 6% in 2008, as compared to 2007, versus an increase of 40% and a decrease of 8% in related license fee revenues for the same periods, as discussed above.

Litigation and licensing expenses - patents for 2009, 2008 and 2007 were \$14.1 million, \$6.9 million and \$7.8 million, respectively. Litigation and licensing expenses - patents fluctuate from period to period based on patent enforcement and prosecution activity associated with ongoing licensing and enforcement programs and the timing of the commencement of new licensing and enforcement programs in each period. Litigation and licensing expenses - patents increased for 2009, as compared to 2008 and 2007, due to an increase in litigation and licensing support related out of pocket expenses, third party technical consulting expenses, professional expert expenses and other litigation support and administrative costs incurred in connection with our investment in certain of our licensing and enforcement programs that went to trial and concluded in 2009, licensing and enforcement programs with trial dates scheduled for 2010, and a net increase in costs related to new licensing and enforcement programs commenced since the end of the prior year periods.

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

We pursue enforcement actions in connection with our licensing and enforcement programs which can involve certain risks and uncertainties, including the following:

- Increases in patent litigation related legal expenses, including, but not limited to, increases in costs billed by outside legal counsel for discovery, depositions, economic analyses, damages assessments, expert witnesses and other consultants, case-related audio/video presentations and other litigation support and administrative costs, could increase our operating costs and decrease our revenue generating opportunities;
- Our patented technologies and enforcement actions are complex, and, as a result, we may be required to appeal adverse decisions by trial courts in order to successfully enforce our patents;
- New legislation, regulations or rules related to enforcement actions could significantly increase our operating costs and decrease our revenue generating opportunities; and
- Courts may rule that our subsidiaries have violated certain statutory, regulatory, federal, local or governing rules or standards by pursuing such enforcement actions, which may expose us and our operating subsidiaries to material liabilities, which could harm our operating results and our financial position.

Investments in Patent Portfolios

Our operating subsidiaries intend to sustain the long term growth of our intellectual property licensing and enforcement business through the identification and acquisition of, or the rights to, additional core patented technologies, across a wide range of technology areas that have been, or are anticipated to be, widely adopted by third parties in connection with the manufacture or sale of products and services. During 2009, certain of our operating subsidiaries continued to execute their business strategy in the area of patent portfolio acquisitions. Patent portfolio acquisition costs for 2009 totaled \$9.6 million, as compared to \$2.1 million in 2008 and \$3.8 million in 2007.

The total number of patents, associated U.S. applications and foreign counterparts per portfolio acquired during the year ended December 31, 2009 ranged from one to 59. Several of the patent portfolios acquired in 2009 were acquired in connection with partnering arrangements executed with major technology companies, reflecting our continued identification of opportunities to partner not only with individual inventors and small to medium size technology companies, but also major well established technology companies with larger patent portfolios.

Of the \$9.6 million in patent acquisition costs invested during the year ended December 31, 2009, we have a contractual guarantee to receive a minimum of \$5.0 million in net proceeds, which significantly reduces the risk associated with these initial investments. The majority of remaining acquisition costs incurred are subject to contractual provisions providing for higher percentage returns to our operating subsidiaries early on in the licensing and enforcement program until such initial upfront acquisition costs are fully recovered.

The higher level of acquisition costs incurred in 2009 reflects our continued identification of opportunities to partner with major technology companies and exchange up front, advanced royalty payments to patent owners, for a reduced future inventor royalty percentage, resulting in the potential for higher returns on our investments in connection with future licensing and enforcement activities.

Acquisitions during 2009 included the acquisition of, or the acquisition of the rights to, 30 patent portfolios covering a variety of applications, including the following:

- **Online Promotion.** This patented technology generally relates to online promotion of consumer products and can be used to provide consumers with web access to discount coupons and rebate offers.
- **Interactive Mapping.** This patented technology generally relates to interactive maps and can be used to provide user-generated data, such as places of interest or reviews, over the Internet.
- **Improved Anti-Trap Safety.** This patented technology can be used to adapt automatic vent closure to changes, such as environment or mechanical wear. This technology may be applicable to vehicles that implement anti-pinch/anti-trap safety systems on powered vents such as windows, doors and sunroofs.
- **Improved Commercial Print.** This patented technology can eliminate various print artifacts while improving resolution, color and ink consumption from commercial presses. Printers can benefit from these improvements, particularly those who specialize in high volume press work.
- **Electronic Securities Trading.** This patented technology generally relates to tools for automated electronic securities trading and may be used in online trading.
- **User Programmable Engine Control.** This patented technology generally relates to the user interface for the engine control module, or ECM, and offers control and calibration of the ECM including input and output parameters controlling engine performance.
- **Wireless LAN.** This patented technology generally relates to wireless local area networking, or WLAN, and includes communications architectures for use in spread spectrum systems. This technology can be used in equipment such as laptops, wireless routers, access points, handsets and other consumer electronics devices with WLAN capability.
- **Network Monitoring.** This patented technology generally relates to monitoring and reporting on management and financial characteristics of networks and can be used to help organizations make resource decisions.

- Medical Image Manipulation. This patented technology generally relates to the manipulation of medical images and can be used in the surgical process.
- Consumer Rewards Program. This patented technology generally relates to consumer rewards programs such as loyalty programs offered by airlines, hotels and credit card companies and may be used to provide a single source for consumers to access and utilize applicable benefits under different loyalty programs.

- Messaging. This patented technology generally relates to a communications messaging platform that notifies the user after receiving messages and enables the user to access the messages via a browser. The platform may receive messages in multiple formats, such as voice, text, or image.
- Computer Architecture and Power Management. These patented technologies generally relate to computer architecture and power management. These technologies can be used in computers, servers, cell phones, game consoles, microprocessors and other electronic systems.
- Records Management. This patented technology generally relates to enabling individuals in an enterprise to uniformly classify records.
- Digital Video Enhancement. This patented technology generally relates to the enhancement of digital video images and has applications in a wide variety of consumer electronics products, such as TV's, DVD/Blu-ray players, game consoles, smart phones and cameras, in reducing artifacts created during digital video encoding.
 - Biosensor. This patented technology generally relates to biosensors, such as those used in drug discovery.
- Integrated Access. This patented technology includes the delivery of triple play (voice, video and data) services and can be used in installations that incorporate set top boxes and/or voice/data gateways.
- Mobile Computer Synchronization. The patent portfolio includes patents relating to the synchronization of data between mobile and fixed computer systems. This technology may be used to keep email, contacts, calendar information and other data synchronized between mobile devices (such as personal digital assistants, or PDA's, and smart phones) and servers or desktop computers.
- MEMS. This patented technology generally relates to micromechanical components which can be integrated with electronic circuits to form microelectromechanical systems known as MEMS. This technology can be used in automobiles, medical devices, mobile phones and other consumer products.
- Digital Signal Processing Architecture. This patented technology generally relates to instructions that can be used to implement signal processing techniques in a digital signal processor.
- Software Installation. isition-related intangible assets as a percentage of total revenue was 10% and 9% in the nine-month periods ended September 30, 2009 and 2008, respectively. The \$43 million increase in 2009 was due to acquisitions made in 2008, from shortening the remaining useful lives of certain intangible assets and an \$11 million increase in impairment charges.
Interest expense was \$471 million and \$433 million for the nine months ended September 30, 2009 and 2008, respectively. The increase in interest expense was due primarily to increased borrowings from the issuance of \$500 million senior notes due 2015, a \$500 million increase in the term loan, borrowings under our receivables facility and additional borrowings under our revolving credit facility, partially offset by interest rate decreases. Other income was \$6 million for the nine months ended September 30, 2009 compared to other expense of \$49 million for the nine months ended September 30, 2008. The change is primarily attributable to \$7 million of foreign currency translation gains primarily related to our Euro denominated term loan in the nine months ended September 30, 2009 compared to \$17 million of losses on Euros purchased in advance of and fees associated with unused alternative financing commitments for the acquisition of GL TRADE, \$15 million of translation losses related to our Euro denominated term loan and \$13 million of losses on sales of receivables related to our terminated off-balance sheet receivables facility in the same period in 2008.

The effective income tax rates in the nine months ended September 30, 2009 and 2008 were % and 17%, respectively. The rate in both periods reflects changes in the overall projected taxable position for the year and the expected mix of taxable income in various jurisdictions, and limitations on our ability to utilize certain foreign tax credits. The reported benefit from income taxes in 2009 includes a \$12 million favorable out-of-period adjustment primarily related to our utilization of foreign tax credit carryforwards from a prior year.

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Liquidity and Capital Resources:

At September 30, 2009, cash and equivalents were \$479 million, a decrease of \$496 million from December 31, 2008. Cash flow provided by operations was \$364 million in the nine months ended September 30, 2009 compared to \$388 million in the nine months ended September 30, 2008. The decrease in cash flow from operations is due primarily to a \$36 million increase in working capital requirements including higher requirements for the clearing broker/dealer.

Net cash used in investing activities was \$264 million in the nine months ended September 30, 2009, comprised of cash paid for property and equipment and other assets, one business acquired in each of our FS and PS segments and payment of a contingent purchase obligation.

Net cash used in financing activities was \$608 million for the nine months ended September 30, 2009, primarily related to repayment at maturity of the \$250 million senior secured notes and repayment of \$500 million of borrowings under the revolving credit facility, partially offset by cash received from the new receivables facility (net of associated fees). At September 30, 2009, no amount was outstanding under the revolving credit facility and \$259 million was outstanding under the receivables facility. In early 2009, we entered into interest rate swap agreements, with an aggregate notional amount of \$1.2 billion, which expire in February 2012 under which we pay fixed interest payments (at 1.78%) for the term of the swaps and, in turn, receive variable interest payments based on LIBOR.

At September 30, 2009, contingent purchase price obligations that depend upon the operating performance of certain acquired businesses could total \$58 million, all of which could be due in the next 12 months. We also have outstanding letters of credit and bid bonds that total approximately \$34 million.

At September 30, 2009, we have outstanding \$8.34 billion in aggregate indebtedness, with additional borrowing capacity of \$808 million under the revolving credit facility (after giving effect to outstanding letters of credit).

On June 9, 2009, SunGard entered into an amendment to the Credit Agreement (Amended Credit Agreement) which, among other things, (a) extends the maturity date of \$2.5 billion of its dollar-denominated term loans, £40 million of pound sterling-denominated term loans, and 120 million of Euro-denominated term loans from February 2014 to February 28, 2016, (b) reduces existing revolving credit commitments to \$829 million and extends the termination date of \$580 million of revolving credit commitments to May 11, 2013, and (c) amends certain other provisions of the Credit Agreement, including provisions relating to negative covenants and financial covenants.

As of September 30, 2009, the interest rate for the extended term loans, after adjusting for interest rate swaps, was 4.10% and for the unextended term loans, after adjusting for interest rate swaps, was 2.02%. The commitment fee on the daily unused portion of the 2013 and 2011 revolving credit commitments was 0.75% and 0.50%, respectively. The amended credit agreement increased our interest payments obligation from that reported in SunGard's Form 10-K filed in March 2009 and the Form 10-12G/A for SCC and SCCII filed in June 2009 by \$44 million in 2009, \$87 million for 2010-2011, \$86 million for 2012-2013 and \$289 million thereafter.

We expect our cash flows from operations, combined with availability under the revolving credit facility and receivables facility, to provide sufficient liquidity to fund our current obligations, projected working capital requirements and capital spending for a period that includes the next 12 months.

Covenant Compliance

Adjusted EBITDA is used to determine compliance with certain covenants contained in the indentures governing the senior notes due 2013 and 2015 and senior subordinated notes due 2015 and in SunGard's senior secured credit facilities. Adjusted EBITDA is defined as EBITDA further adjusted to exclude unusual items and other adjustments permitted in calculating covenant compliance under the indentures and SunGard's senior secured credit facilities. We believe that the inclusion of supplementary adjustments to EBITDA applied in presenting Adjusted EBITDA are appropriate to provide additional information to investors to demonstrate compliance with the financing covenants. The breach of covenants in SunGard's senior secured credit facilities that are tied to ratios based on Adjusted EBITDA could result in a default under that agreement and the lenders could elect to declare all amounts borrowed due and payable. Any such acceleration would also result in a default under the indentures. Additionally, under SunGard's debt agreements, our ability to engage in activities such as incurring additional indebtedness, making investments and paying dividends is also tied to ratios based on Adjusted EBITDA.

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Adjusted EBITDA is calculated as follows (in millions):

	Three Months Ended		Nine Months Ended		Last Twelve Months
	September 30,		September 30,		September 30,
	2008	2009	2008	2009	2009
Net income (loss)	\$ (35)	\$ (40)	\$ (55)	\$ (81)	\$ (268)
Interest expense, net	138	160	420	465	626
Taxes	9	(3)	(9)	(12)	35
Depreciation and amortization	201	224	568	619	844
Goodwill impairment charge					128
EBITDA	313	341	924	991	1,365
Purchase accounting adjustments (a)	25	5	45	13	23
Non-cash charges (b)	8	8	22	25	39
Unusual or non-recurring charges (c)	9	3	17	13	47
Acquired EBITDA, net of disposed EBITDA (d)	5		13		1
Pro forma expense savings related to acquisitions (e)				1	5
Other (f)	7	16	31	6	48
Adjusted EBITDA senior secured credit facilities	367	373	1,052	1,049	1,528
Loss on sale of receivables (g)	4		13		12
Adjusted EBITDA senior notes due 2013 and 2015 and senior subordinated notes due 2015	\$ 371	\$ 373	\$ 1,065	\$ 1,049	\$ 1,540

(a) Purchase accounting adjustments include the adjustment of deferred revenue and lease reserves to fair value at the date of the Transaction and subsequent acquisitions made by the Company and certain acquisition-related compensation expense.

- (b) Non-cash charges include stock-based compensation and loss on the sale of assets.
- (c) Unusual or non-recurring charges include debt refinancing costs, severance and related payroll taxes, and certain other expenses associated with acquisitions made by the Company.
- (d) Acquired EBITDA net of disposed EBITDA reflects the EBITDA impact of businesses that were acquired or disposed of during the period as if the acquisition or disposition occurred at the beginning of the period.
- (e) Pro forma adjustments represent the full-year impact of savings resulting from post-acquisition integration activities.
- (f) Other includes gains or losses related to fluctuation of foreign currency exchange rates,

management fees
paid to the
Sponsors and
franchise and
similar taxes
reported in
operating
expenses, partially
offset by interest
charges relating to
the off-balance
sheet accounts
receivable
securitization
facility.

- (g) The loss on sale of
receivables under
the off-balance
sheet accounts
receivable
securitization
facility was added
back in calculating
Adjusted EBITDA
for purposes of the
indentures
governing the
senior notes due
2013 and 2015 and
the senior
subordinated notes
due 2015 but was
not added back in
calculating
Adjusted EBITDA
for purposes of the
senior secured
credit facilities.

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The covenant requirements and actual ratios for the twelve months ended September 30, 2009 are as follows:

	Covenant Requirements	Actual Ratios
Senior secured credit facilities ⁽¹⁾		
Minimum Adjusted EBITDA to consolidated interest expense ratio	1.65x	2.64x
Maximum total debt to Adjusted EBITDA	6.75x	5.02x
Senior notes due 2013 and senior subordinated notes due 2015 ⁽²⁾		
Minimum Adjusted EBITDA to fixed charges ratio required to incur additional debt pursuant to ratio provisions	2.00x	2.62x

(1) The senior secured credit facilities require us to maintain an Adjusted EBITDA to consolidated interest expense ratio starting at a minimum of 1.65x for the four-quarter period ended December 31, 2008 and increasing over time to 1.70x by the end of 2009, to 1.80x by the end of 2010 and 2.20x by the end of 2013. Consolidated interest expense is defined in the senior secured credit facilities as consolidated cash interest expense less cash interest income further adjusted for certain non-cash or non-recurring interest expense and the elimination of

interest expense
and fees
associated with
SunGard's
receivables
facility.

Beginning with
the four-quarter
period ending
December 31,
2008, we are
required to
maintain a
consolidated
total debt to
Adjusted
EBITDA ratio
of 6.75x and
decreasing over
time to 6.25x by
the end of 2009
and to 4.75x by
the end of 2013.

Consolidated
total debt is
defined in the
senior secured
credit facilities
as total debt less
certain
indebtedness
and further
adjusted for
cash and cash
equivalents on
SunGard's
balance sheet in
excess of
\$50 million.

Failure to
satisfy these
ratio
requirements
would constitute
a default under
the senior
secured credit
facilities. If the
lenders failed to
waive any such
default, the

repayment obligations under the senior secured credit facilities could be accelerated, which would also constitute a default under the indentures.

- (2) Our ability to incur additional debt and make certain restricted payments under the indentures, subject to specified exceptions, is tied to an Adjusted EBITDA to fixed charges ratio of at least 2.0x, except that we may incur certain debt and make certain restricted payments and certain permitted investments without regard to the ratio, such as the ability to incur up to an aggregate principal amount of \$5.75 billion under credit facilities (inclusive of amounts outstanding under the senior credit facilities from time to time; as of

September 30, 2009, we had \$4.73 billion outstanding under the term loan facilities and available commitments of \$808 million under the revolving credit facility), to acquire persons engaged in a similar business that become restricted subsidiaries and to make other investments equal to 6% of SunGard's consolidated assets. Fixed charges is defined in the indentures governing the Senior Notes due 2013 and 2015 and the Senior Subordinated Notes due 2015 as consolidated interest expense less interest income, adjusted for acquisitions, and further adjusted for non-cash interest and the elimination of interest expense and fees associated with the receivables facility.

Table of Contents**Certain Risks and Uncertainties**

Certain of the matters we discuss in this Report on Form 10-Q may constitute forward-looking statements. You can identify forward-looking statements because they contain words such as believes, expects, may, will, should, approximately, intends, plans, estimates, or anticipates or similar expressions which concern our strategy, plans and intentions. All statements we make relating to estimated and projected earnings, margins, costs, expenditures, cash flows, growth rates and financial results are forward-looking statements. In addition, we, through our senior management, from time to time make forward-looking public statements concerning our expected future operations and performance and other developments. All of these forward-looking statements are subject to risks and uncertainties that may change at any time, and, therefore, our actual results may differ materially from those we expected. We derive most of our forward-looking statements from our operating budgets and forecasts, which are based upon many detailed assumptions. While we believe that our assumptions are reasonable, we caution that it is very difficult to predict the impact of known factors, and, of course, it is impossible for us to anticipate all factors that could affect our actual results. Some of the factors that we believe could affect our results include: our high degree of leverage; general economic and market conditions; the condition of the financial services industry, including the effect of any further consolidation among financial services firms; the integration of acquired businesses, the performance of acquired businesses, and the prospects for future acquisitions; the effect of war, terrorism, natural disasters or other catastrophic events; the effect of disruptions to our systems and infrastructure; the timing and magnitude of software sales; the timing and scope of technological advances; customers taking their information availability solutions in-house; the trend in information availability toward solutions utilizing more dedicated resources; the market and credit risks associated with clearing broker operations; the ability to retain and attract customers and key personnel; risks relating to the foreign countries where we transact business; the ability to obtain patent protection and avoid patent-related liabilities in the context of a rapidly developing legal framework for software and business-method patents; and a material weakness in our internal controls. The factors described in this paragraph and other factors that may affect our business or future financial results are discussed in our filings with the Securities and Exchange Commission, including this Form 10-Q. We assume no obligation to update any written or oral forward-looking statement made by us or on our behalf as a result of new information, future events or other factors.

Item 3. Quantitative and Qualitative Disclosures about Market Risk:

We do not use derivative financial instruments for trading or speculative purposes. We have invested our available cash in short-term, highly liquid financial instruments, with a substantial portion having initial maturities of three months or less. When necessary, we have borrowed to fund acquisitions.

At September 30, 2009, we had total debt of \$8.34 billion, including \$4.99 billion of variable rate debt. We have entered into interest rate swap agreements which fixed the interest rates for \$3.50 billion of our variable rate debt. Swap agreements with a notional value of \$800 million effectively fix our interest rates at 5.00% and expire in February 2011. Swap agreements expiring in February 2010 and 2011 each have a notional value of \$750 million and, effectively, fix our interest rates at 2.71% and 3.17%, respectively. Swap agreements expiring in February 2012 have a notional value of \$1.2 billion and effectively fix our interest rates at 1.78%. Our remaining variable rate debt of \$1.49 billion is subject to changes in underlying interest rates, and, accordingly, our interest payments will fluctuate. During the period when all of our interest rate swap agreements are effective, a 1% change in interest rates would result in a change in interest of approximately \$15 million per year. Upon the expiration of each interest rate swap agreement in February 2010, February 2011 and February 2012, a 1% change in interest rates would result in a change in interest of approximately \$22 million, \$38 million and \$50 million per year, respectively.

Item 4T. Controls and Procedures:

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this Report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this Report were effective.

No change in our internal control over financial reporting occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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Part II Other Information:

Item 1. Legal Proceedings: None.

Item 1A. Risk Factors: There have been no material changes to SunGard's Risk Factors as previously disclosed in its Form 10-K for the year ended December 31, 2008. There have been no material changes to SCC's or SCCII's Risk Factors as previously disclosed in their Form 10-12G/A.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds: None.

Item 3. Defaults Upon Senior Securities: None.

Item 4. Submission of Matters to Vote of Security Holders: The stockholders of each of SunGard, SCC and SCCII, approved by written consent dated September 16, 2009, the election of the following persons as directors to serve in such capacity until his or her successor is designated and qualified, or until he or she sooner dies, resigns, is removed or becomes disqualified: Chinh Chu, Cristóbal Conde, John Connaughton, James H. Greene, Jr., Glenn Hutchins, James L. Mann, John Marren, Sanjeev Mehra and Julie Richardson.

Item 5. Other Information:

(a) None.

(b) None.

Item 6. Exhibits:

Number	Document
10.1	Form of Amendment to the Performance Based Stock Option Award Agreements (incorporated by reference to the Exhibits filed with Schedule TO of SunGard Capital Corp. and SunGard Capital Corp. II, each filed August 13, 2009 (Commission File Nos. 5-84880 and 5-84881, respectively)).
10.2	Form of Amendment to the Performance-Based Restricted Stock Unit Award Agreements (incorporated by reference to the Exhibits filed with Schedule TO of SunGard Capital Corp. and SunGard Capital Corp. II, each filed August 13, 2009 (Commission File Nos. 5-84880 and 5-84881, respectively)).
10.3	Form of Amendment to the Performance-Based Class A Stock Option Award Agreements (incorporated by reference to the Exhibits filed with Schedule TO of SunGard Capital Corp. and SunGard Capital Corp. II, each filed August 13, 2009 (Commission File Nos. 5-84880 and 5-84881, respectively)).
10.4*	Forms of 2009 Senior Management Performance-Based Restricted Stock Unit Award Agreements.
10.5*	Forms of 2009 Senior Management Performance-Based Class A Stock Option Award Agreements.
10.6*	Form of 2009 Senior Management Time-Based Restricted Stock Unit Award Agreement.
10.7*	Form of 2009 Senior Management Time-Based Class A Stock Option Award Agreement.
12.1*	Computation of Ratio of Earnings to Fixed Charges.
31.1*	Certification of Cristóbal Conde, Chief Executive Officer of SunGard Capital Corp., SunGard Capital Corp. II and SunGard Data Systems Inc. required by Rule 13a-14(a) or Rule 15d-14(a) and Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Michael J. Ruane, Chief Financial Officer of SunGard Capital Corp., SunGard Capital Corp. II and SunGard Data Systems Inc. required by Rule 13a-14(a) or Rule 15d-14(a) and Section 302 of the Sarbanes-Oxley Act of 2002.

32.1* Certification of Cristóbal Conde, Chief Executive Officer of SunGard Capital Corp., SunGard Capital Corp. II and SunGard Data Systems Inc. required by Rule 13a-14(b) or Rule 15d-14(b) and Section 906 of the Sarbanes-Oxley Act of 2002.

32.2* Certification of Michael J. Ruane, Chief Financial Officer of SunGard Capital Corp., SunGard Capital Corp. II and SunGard Data Systems Inc. required by Rule 13a-14(b) or Rule 15d-14(b) and Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed herewith.

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SIGNATURES

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

**SUNGARD CAPITAL CORP.
SUNGARD CAPITAL CORP. II**

Dated: November 5, 2009

By: /s/ Michael J. Ruane
Michael J. Ruane
Executive Vice President and Chief
Financial Officer
(Principal Financial Officer)

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

SUNGARD DATA SYSTEMS INC.

Dated: November 5, 2009

By: /s/ Michael J. Ruane
Michael J. Ruane
Senior Vice President-Finance and Chief
Financial Officer
(Principal Financial Officer)

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Exhibit Index

Number	Document
10.1	Form of Amendment to the Performance Based Stock Option Award Agreements (incorporated by reference to the Exhibits filed with Schedule TO of SunGard Capital Corp. and SunGard Capital Corp. II, each filed August 13, 2009 (Commission File Nos. 5-84880 and 5-84881, respectively)).
10.2	Form of Amendment to the Performance-Based Restricted Stock Unit Award Agreements (incorporated by reference to the Exhibits filed with Schedule TO of SunGard Capital Corp. and SunGard Capital Corp. II, each filed August 13, 2009 (Commission File Nos. 5-84880 and 5-84881, respectively)).
10.3	Form of Amendment to the Performance-Based Class A Stock Option Award Agreements (incorporated by reference to the Exhibits filed with Schedule TO of SunGard Capital Corp. and SunGard Capital Corp. II, each filed August 13, 2009 (Commission File Nos. 5-84880 and 5-84881, respectively)).
10.4*	Forms of 2009 Senior Management Performance-Based Restricted Stock Unit Award Agreements.
10.5*	Forms of 2009 Senior Management Performance-Based Class A Stock Option Award Agreements.
10.6*	Form of 2009 Senior Management Time-Based Restricted Stock Unit Award Agreement.
* Filed herewith.	