SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001
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	95-4405754
(State or other jurisdiction of incorporation organization)	(I.R.S. Employer Identification No.)
500 NEWPORT CENTER DRIVE, NEWPORT BEACH, CA	92660
(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: NONE

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

COMMON STOCK, $0.001 PAR VALUE

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 |X| 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 [ ]

The aggregate market value of the voting stock held by non-affiliates of the registrant, computed by reference to the average closing bid and asked prices of such stock, as of March 22, 2002 was approximately $224,973,420. (All officers and directors of the registrant are considered affiliates.)

At March 22, 2002 the registrant had 19,629,376 shares of common stock 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.

FORM 10-K ANNUAL REPORT
FISCAL YEAR ENDED DECEMBER 31, 2001
ACACIA RESEARCH CORPORATION

PART I

CAUTIONARY STATEMENT

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 or the 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. 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.

As used in this Form 10-K, "we," "us," "our," "Acacia" and "Acacia Research" refer to Acacia Research Corporation and its subsidiary companies.

Acacia Research Corporation, a Delaware corporation, was originally incorporated in California in January 1993 and reincorporated in Delaware in December 1999.

ITEM 1. BUSINESS

GENERAL

Acacia Research Corporation develops, licenses and provides products for the media technology and life science sectors.

Acacia's media technologies business, collectively referred to as "Acacia Media Technologies Group," owns intellectual property related to the telecommunications field, including a television blanking system, also known as the "V-chip," which it licenses to television manufacturers. In addition, Acacia Media Technologies Group owns a worldwide portfolio of pioneering patents relating to audio and video transmission and receiving systems, commonly known as audio-on-demand and video-on-demand, used for distributing content via various methods including computer networks, cable television systems and direct broadcasting satellite systems. Acacia Media Technologies Group is responsible for the development, licensing and protection of its intellectual property and proprietary technologies. Our media technologies group continues to pursue both licensing and strategic business alliances with leading companies in the rapidly growing media technologies industry.

Acacia's life sciences business, collectively referred to as "Acacia Life Sciences Group," is comprised of CombiMatrix Corporation ("CombiMatrix") and Advanced Material Sciences, Inc. ("Advanced Material Sciences"). Our core technology opportunity in the life sciences sector has been developed through our majority-owned subsidiary, CombiMatrix. CombiMatrix is a life science technology company with a proprietary system for rapid, cost competitive creation of DNA and other compounds on a programmable semiconductor chip. This proprietary technology has significant applications relating to genomic and proteomic research. Our majority-owned subsidiary, Advanced Material Sciences, holds the exclusive license for CombiMatrix's biological array processor technology in certain fields of material sciences.

Below is a summary of our most significant wholly and majority-owned subsidiaries and our related ownership percentages on an as-converted basis:

COMPANY NAME	DESCRIPTION OF BUSINESS	OWNERSHIP % AS OF 3/22/02 ON AN AS-CONVERTED BASIS
ACACIA MEDIA TECHNOLOGIES GROUP:		
Soundview Technologies Incorporated.....	A media technology company that owns intellectual property related to the telecommunications field, including a television blanking system, also known as "V-chip," which it is licensing to television manufacturers.	100.0%
Acacia Media Technologies Corporation (formerly Greenwich Information Technologies LLC).....	A media technology company that owns a worldwide portfolio of pioneering patents relating to audio and video transmission and receiving systems, commonly known as audio-on-demand and video-on-demand, used for distributing content via various methods including computer networks, cable television systems and direct broadcasting satellite systems.	100.0%
ACACIA LIFE SCIENCES GROUP:		
CombiMatrix Corporation.....	A life science technology company with a proprietary system for rapid, cost competitive creation of DNA and other compounds on a programmable semiconductor chip. This proprietary technology has significant applications relating to genomic and proteomic research.	57.5%(1)
Advanced Material Sciences, Inc.....	A development-stage company that holds the exclusive license for CombiMatrix's biological array processor technology in certain fields of material science.	58.1%(2)

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(1) We are a party to a shareholder agreement with an officer of CombiMatrix, which provides for (a) the collective voting of shares (representing 69.5% of the voting interests in CombiMatrix) for the election of certain directors to CombiMatrix's board of directors and (b) certain restrictions on the sale or transfer of the officer's shares of common stock in CombiMatrix.

(2) Advanced Material Sciences is 58.1% owned by us, 28.5% owned by CombiMatrix and 13.4% owned by third-parties. We have a 74.5% economic interest in Advanced Material Sciences by virtue of our 58.1% direct ownership interest in Advanced Material Sciences and our 57.5% interest in CombiMatrix.

RECENT DEVELOPMENTS

On March 20, 2002, we announced that our board of directors approved a plan to divide our common stock into two new classes - new "CombiMatrix" common stock, that would reflect the performance of our CombiMatrix subsidiary, and new "Acacia Technologies" common stock, that would reflect the performance of our media technology businesses, including Soundview Technologies Incorporated and Acacia Media Technologies Corporation. The plan will be submitted to our stockholders for approval. If the recapitalization proposal were approved, our stockholders would receive shares of both of the new classes of stock in exchange for existing Acacia shares. The new share classes would be separately listed on the NASDAQ National Market System.

We also announced that our board of directors and CombiMatrix's board of directors have approved an agreement for Acacia to acquire the minority stockholder interests in CombiMatrix. The proposed acquisition would be accomplished through a merger in which the minority stockholders of CombiMatrix would receive shares of the new "CombiMatrix" common stock, in exchange for their existing shares. The proposed transaction will be submitted to the stockholders of Acacia and CombiMatrix for approval.

The proposed recapitalization and merger are subject to several important conditions, including receipt of stockholder approval, receipt of satisfactory tax and accounting opinions, approval of the proposed merger by a special committee of the CombiMatrix board of directors, receipt of a fairness opinion, approval for listing of both of the new shares on the NASDAQ National Market System and other customary conditions. We expect to present these proposals to our stockholders for approval at a special meeting.

BUSINESS GROUPS

ACACIA MEDIA TECHNOLOGIES GROUP

SOUNDVIEW TECHNOLOGIES INCORPORATED

Soundview Technologies Incorporated ("Soundview Technologies") was incorporated in March 1996 under the laws of the State of Delaware. Soundview Technologies has acquired and is developing intellectual property in the telecommunications field, including audio and video blanking systems, also known as V-chip technology. In March 1998, the Federal Communications Commission ("FCC") approved the television guidelines rating system, as well as the V-chip technical standards. Soundview Technologies owns the exclusive right and title to U.S. Patent No. 4,554,584, which describes a method for implementing the V-chip system in parallel with the existing closed-captioning circuits already in place in televisions.

In June 2001, our ownership interest in Soundview Technologies increased from 67% to 100%, following Soundview Technologies' completion of a stock repurchase transaction with its former minority stockholders. Soundview Technologies repurchased the stock of its former minority stockholders in exchange for a cash payment and the grant to such stockholders of the right to receive 26% of future net revenues generated by Soundview Technologies' current patent portfolio, which includes its V-chip patent.

Soundview Technologies' patent was issued in November 1985 and expires in July 2003. In April 1998, the U.S. Patent and Trademark Office issued a reexamination certificate confirming the approval of all existing and newly added claims of its issued patent. The reexamination was requested by Soundview Technologies in August 1996 to confirm the strength of its patent in light of other existing patents. Over 30 new prior art references were introduced and examined during the process, which took more than eighteen months for the Patent Office to complete. As a result, patentability of all original claims as issued was confirmed and 17 new claims more specific to the V-chip implementation were granted.

As of July 1, 1999, the 1996 Telecommunications Act required all television manufacturers to include V-chip technology in 50% of all new television sets with screens 13 inches or larger sold in the United States. After January 1, 2000, the 1996 Telecommunications Act required all television manufacturers to include V-chip technology in all new television sets with

screens 13 inches or larger sold in the United States. Approximately 26.0 million new televisions are sold each year in the United States. Soundview Technologies' V-chip technology is a cost-effective method for V-chip implementation that is compatible with components currently in use in televisions. Soundview Technologies' V-chip technology uses a television's receiver circuitry to decode content rating information sent as part of the broadcast signal. By utilizing the broadcast signal that carries closed-caption data, Soundview Technologies' technology is relatively inexpensive to implement. The industry and its trade association adopted this method as the technical standard for new television sets sold in the United States that are required to have V-chip technology.

In 2000, Soundview Technologies filed a federal patent infringement and antitrust lawsuit against certain television manufacturers, the Consumer Electronics Manufacturers Association and the Electronics Industries Alliance d/b/a/ Consumer Electronics Association. In its lawsuit now pending before the United States District Court for the District of Connecticut, Soundview Technologies alleges that television sets fitted with V-chips and sold in the United States infringe Soundview Technologies' patent. Additionally, Soundview Technologies alleges that the Consumer Electronics Manufacturers Association has induced infringement of Soundview Technologies' patent and that the defendants have violated the federal Clayton and Sherman Antitrust Acts by engaging in collusive attempts to prevent others in the electronics and television broadcasting industries from entering into licensing agreements with Soundview Technologies. Soundview Technologies is seeking monetary damages, an injunction preventing unlicensed use of its patented technology and other remedies.

During 2001, Soundview Technologies executed separate settlement and/or license agreements with Samsung Electronics, Hitachi America, Ltd., LG Electronics, Inc., Funai Electric Co., Ltd., Daewoo Electronics Corporation of America, Sanyo Manufacturing Corporation, Thomson Multimedia, Inc., JVC Americas Corporation, Matsushita Electric Industrial Co., Ltd. and Orion Electric Co., Ltd. In addition, Soundview Technologies settled its lawsuits with Pioneer Electronics (USA) Incorporated, an affiliate of Pioneer Corporation, and received payments from Philips Electronics North America Corporation pursuant to a settlement and license agreement signed in December 2000. Certain of these license agreements constitute settlements of patent infringement litigation brought by Soundview Technologies. As of December 31, 2001, we have received license fee payments from television manufacturers totaling $25.6 million and have granted non-exclusive licenses of Soundview Technologies' U.S. Patent No. 4,554,584 to the respective television manufacturers. Certain of the settlement and license agreements provide for future royalty payments to Soundview Technologies. We received and recognized as revenue $2.4 million of the license fee payments in the first quarter of 2001, $10.0 million of the license fee payments in the second quarter of 2001, $10.7 million of the license fee payments in the third quarter of 2001 and $1.0 million of the license fee payments in the fourth quarter of 2001. License fee payments received during 2001 totaling $1.5 million are included in deferred revenues at December 31, 2001 pursuant to the terms of the respective agreements.

ACACIA MEDIA TECHNOLOGIES CORPORATION

Acacia Media Technologies Corporation ("Acacia Media Technologies"), formerly Greenwich Information Technologies LLC which was formed as a limited liability company under the laws of the State of Delaware in 1996, owns a worldwide portfolio of pioneering patents relating to audio and video transmission and receiving systems, commonly known as audio-on-demand and video-on-demand, used for distributing content via various methods including computer networks, cable television systems and direct broadcasting satellite systems. Audio-on-demand offers similar functionality with music or other audio content. Video-on-demand allows television viewers to order movies or other programs from a remote file server and to view them at home with full VCR functionality, including pause, fast-forward and reverse. Information-on-demand is one of the primary applications of interactive entertainment.

On November 1, 2001, we increased our ownership interest in Acacia Media Technologies, formerly Greenwich Information Technologies LLC, from 33% to 100% through the purchase of the ownership interest of the former limited liability company's other member. In December 2001, we converted the company from a limited liability company to a corporation and changed the name of the company to Acacia Media Technologies Corporation (hereinafter referred to as "Acacia Media Technologies").

Acacia Media Technologies owns five issued U.S. patents relating to audio and video transmission and receiving systems, commonly known as audio-on-demand and video-on-demand, used for distributing content via various methods as follows: U.S. Patent No. 5,132,992, U.S. Patent No. 5,253,275, U.S. Patent No. 5,550,863, U.S. Patent No. 6,002,720 and U.S. Patent No. 6,144,702. In addition, Acacia Media Technologies owns sixteen foreign patents also relating to audio and video transmission and receiving systems technology. Foreign rights include patents granted in Mexico and the Republic of China, a patent granted by the European Patent Office covering Austria, Belgium, Denmark, France, Germany, Greece, Italy, Luxembourg, Monaco, the Netherlands, Spain, Sweden, Switzerland and the United Kingdom, and patent applications pending in Japan and South Korea. Those patents that have already been issued and granted were issued or granted during the past nine years, the earliest of which will expire in 2011. Acacia Media Technologies is pursuing business opportunities with possible providers of information-on-demand systems and others involved in supplying related information-on-demand services.

The market for audio and video transmission and receiving systems, such as audio-on-demand and video-on-demand, continues to grow inside the United States and abroad. The technology underlying the infrastructure required to deliver digitized signals to consumers continues to rapidly improve, making the expansion of the infrastructure more economical, and increasing the opportunities for the commercialization of Acacia's audio and video-on-demand patent portfolio. It is estimated that there are currently 17 million digital satellite customers in the United States and 9 million outside the United States. There are an estimated 13 million digital cable subscribers in the United States, and this number is anticipated to increase to over 40 million by 2005. It is also estimated that there are currently 11 million broadband Internet customers in the United States, and this number is anticipated to increase significantly by 2005. Interactive services such as video-on-demand are being rolled out to these digital customers, and it is anticipated that revenues for the video-on-demand industry will reach $3 billion by 2005. We will continue to pursue both licensing and strategic business alliances with leading companies in the rapidly growing media technologies industry.

Subsequent to the acquisition of our 100% ownership interest in Acacia Media Technologies, we have focused our efforts on building a management team with expertise in licensing to the audio and video consumer electronics industry that will focus on the commercialization of Acacia's audio and video-on-demand patent portfolio.

In December 2001, Roy Mankovitz joined Acacia Media Technologies as Senior Vice President, Intellectual Property. Mr. Mankovitz is best known for his position as a Director, and Corporate Counsel, Intellectual Property of Gemstar - TV Guide International ("Gemstar"). Mr. Mankovitz was with Gemstar from 1991 to 1998, where he was responsible for the worldwide patent, trademark and copyright program, including technology licensing, litigation, strategic alliances and the establishment, acquisition and protection of intellectual property rights. He was also a member of the research and development group for new product development and a named inventor of more than two-dozen United States and foreign patents assigned to Gemstar. Prior to Gemstar, Mr. Mankovitz was a member of the law firm Christie, Parker and Hale, LLP where he was responsible for intellectual property prosecution, litigation support, infringement and validity studies, and client counseling for electronics companies, including Gemstar, Samsung and Fujitsu.

In the first quarter of 2002, Andrew Duncan joined Acacia Media Technologies as Vice President, Business Development. Mr. Duncan was formerly Vice President, Consumer Electronics of Gemstar - TV Guide International with direct reporting responsibility to the CEO. Mr. Duncan was with Gemstar from 1994 to 2001, where he was responsible for licensing and marketing of the highly successful VCR Plus+ and Electronic Program Guide. At Gemstar, he developed and controlled licensing and marketing policy with all major consumer electronic manufacturers worldwide, including Sony, Philips and RCA. Prior to Gemstar, Mr. Duncan was European Marketing and Product Manager for Thomson Multimedia (formerly RCA/GE in the United States) where he was responsible for the company's consumer electronics multi-brand business across Europe.

ACACIA LIFE SCIENCES GROUP

COMBIMATRIX CORPORATION

CombiMatrix, a majority-owned subsidiary of Acacia, was incorporated in October 1995 under the laws of the State of California and reincorporated in the State of Delaware in September 2000. CombiMatrix is a development-stage company engaged in the development of a proprietary universal biochip with applications in the genomics, proteomics and combinatorial chemistry markets.

CombiMatrix is developing a technology to allow it to rapidly produce customizable biological array processors, which are semiconductor-based tools for use in identifying and determining the roles of genes, gene mutations and proteins. CombiMatrix is designing its products principally to be responsive to the needs of pharmaceutical and biotechnology researchers to analyze raw genomic data in the discovery and development of pharmaceutical products. CombiMatrix's biological array processor is a semiconductor coated with a three-dimensional layer of porous material in which DNA, RNA, peptides or small molecules can be synthesized or immobilized within discrete test sites. CombiMatrix integrates a semiconductor, proprietary software and chemistry and the Internet into a system that should enable CombiMatrix to design, customize and ship biological array processors made to its potential customers' specifications, typically in less than a day. CombiMatrix's system should enable researchers to conduct rapid, iterative experiments to analyze the large amounts of genomic information generated by the Human Genome Project and other genomic research efforts. We believe that CombiMatrix's customizable biological array processors will enable potential customers to reduce the time and costs associated with the discovery and development of pharmaceutical products.

CombiMatrix's technology potentially represents a significant advance over existing biochip technologies and other platforms for combinatorial chemistry. The first application of the technology that CombiMatrix is pursuing is in the field of genomics, where CombiMatrix is developing a biochip for the analysis of DNA. CombiMatrix believes that this technology may be applied to the fields of genetic analysis and disease management. CombiMatrix also intends to develop the genomic chip in the field of drug discovery, where genomic information is used to discover and to validate new targets for pharmaceutical intervention. CombiMatrix is also developing the chip in the emerging field of proteomics, where analysis of DNA is correlated to the levels of proteins in patient samples. Many researchers believe that the analysis of proteomic information will lead to the development of new drugs and better disease management. Once CombiMatrix demonstrates the feasibility of its approach in each market, it intends to enter into strategic alliances with major participants to speed commercialization in multiple applications.

CombiMatrix has 42 patent applications pending in the United States and Europe. In July 2000, CombiMatrix was granted U.S. Patent No. 6,093,302, which expires in July 2017, for its biochip microarray processor system. This system enables quick and economical turnaround of custom-designed microarrays for use in biological research. A microarray consists of a chemical "virtual flask" located on the surface of a semiconductor chip containing thousands of microarrays, which are separated from each other using special solutions instead of physical barriers. Each microarray has electronic circuitry that may be directed by a computer to construct a specified compound. The patent covers CombiMatrix's core technology, which is a method for producing microarrays by synthesizing biological materials on a three-dimensional, active surface.

In July 2001, CombiMatrix entered into a non-exclusive worldwide license, supply, research and development agreement with Roche Diagnostics GmbH ("Roche"). Under the terms of the agreement, it is contemplated that Roche will purchase, use and resell CombiMatrix's biochips (microarrays) and related technology for rapid production of customizable biochips. Additionally, CombiMatrix and Roche will develop a platform technology, providing a range of standardized biochips for use in important research applications. Roche will make payments for the deliverables contemplated and for expanded license rights.

The agreement allows Roche to use, develop and resell licensed CombiMatrix products in diagnostic applications. The agreement includes a revenue sharing arrangement and has a term of 15 years. The agreement provides for minimum payments by Roche to CombiMatrix over the first three years, including milestone achievements, payments for products, royalties and research and development projects.

In August 2001, CombiMatrix entered into a license and supply agreement with the National Aeronautics and Space Administration ("NASA"). The agreement has a two-year term and provides for the license, purchase and use by the NASA Ames Research Center of CombiMatrix's active biochips (microarrays) and related technology to conduct biological research in terrestrial laboratories and in space.

In October 2001, CombiMatrix formed a joint venture with Marubeni Japan, one of Japan's leading trading companies. The joint venture, based in Tokyo, will focus on development and licensing opportunities for CombiMatrix's biochip technology with pharmaceutical and biotechnology companies in the Japanese market. Marubeni made an investment to acquire a ten percent (10%) minority interest in the joint venture.

In December 2001, CombiMatrix completed a major milestone in its strategic alliance with Roche including demonstration of several key performance metrics of its custom in-situ microarray system.

In 2000 and 1999, CombiMatrix was awarded a total of three contracts from the U.S. Federal government with respect to its biochip technology. In July 1999, CombiMatrix was awarded a Phase I Small Business Innovative Research ("SBIR") contract from the Department of Energy to develop microarrays of affinity probes for the analysis of gene product, which may be used to expedite the drug discovery process in the pharmaceutical industry. In July 1999, CombiMatrix was awarded a Phase I SBIR Department of Defense contract to use CombiMatrix's proprietary biochip technology to develop nanode array sensor microchips to enable simultaneous detection of chemical and biological warfare agents. In January 2000, CombiMatrix was awarded a Phase II SBIR Department of Defense contract for the use of its biochip technology to develop nanode array sensor microchips. Grant revenue recorded in 2001 resulted from CombiMatrix's continuing performance under the Phase II SBIR Department of Defense contract.

In February 2002, CombiMatrix was awarded a Phase I National Institutes of Health grant for the development of its protein biochip technology. The title of the grant is "Self-Assembling Protein Microchips." This grant is in addition to a three-year Phase I and a Phase II SBIR grant from the U.S. Department of Defense for the development of multiplexed chip based assays for chemical and biological warfare agent detection.

In November 2000, CombiMatrix filed a registration statement with the Securities and Exchange Commission ("SEC"), relating to the proposed initial public offering of its common stock. CombiMatrix recently filed a letter with the SEC to withdraw its registration statement.

In April 1996, we entered into a shareholder agreement with CombiMatrix's Senior Vice President, Chief Technology Officer, who holds an ownership interest of 12.0% of CombiMatrix, pertaining to certain matters relating to CombiMatrix. This agreement provides for the collective voting of shares (representing 69.5% of the voting interests in CombiMatrix) for the election of certain directors to CombiMatrix's board of directors, as well as certain restrictions on the sale or transfer of the individual's shares of common stock in CombiMatrix.

ADVANCED MATERIAL SCIENCES, INC.

Advanced Material Sciences is a development-stage company that holds an exclusive license to CombiMatrix's biological processor technology within the field of material science. Material science includes fuel cell catalysts, battery materials, sensor arrays, electronic and electrochemical materials and other materials relating to the use, storage, conversion and delivery of energy other than those involving living or biologic systems.

Advanced Material Sciences is 58.1% owned by us, 28.5% owned by CombiMatrix and 13.4% owned by third-parties. We have a 74.5% economic interest in Advanced Material Sciences by virtue of our 58.1% direct ownership interest in Advanced Material Sciences and our 57.5% interest in CombiMatrix. Advanced Material Sciences intends to develop and exploit CombiMatrix's biological processor technology in certain fields of material science. The principal terms of Advanced Material Sciences' agreement with CombiMatrix are as follows:

- Advanced Material Sciences holds an exclusive worldwide license to CombiMatrix's biological array processor technology for use in certain fields of material science;
- Advanced Material Sciences will pay CombiMatrix a royalty on all net sales generated from the sale of products in the area of material science;
- Advanced Material Sciences will grant a royalty-free, worldwide license to CombiMatrix to use improvements made by Advanced Material Sciences to its technology in all fields outside of material sciences; and
- The initial term of the license agreement with CombiMatrix is 20 years.

In May 2001, Advanced Material Sciences completed a private equity financing raising gross proceeds of $2.0 million through the issuance of 2,000,000 shares of common stock. Advanced Material Sciences issued an additional 29,750 shares of common stock, in lieu of cash payments, and warrants to purchase approximately 54,000 shares of common stock, for finders' fees in connection with the private placement. Each common stock purchase warrant entitles the holder to purchase shares of Advanced Material Sciences common stock at a price of $1.10 per share.

DISCONTINUED OPERATIONS

On February 13, 2001, the board of directors of Soundbreak.com Incorporated ("Soundbreak.com"), one of our majority-owned subsidiaries, resolved to cease operations as of February 15, 2001 and liquidate the remaining assets and liabilities of the company. Accordingly, we reported the results of operations and the estimated loss on disposal of Soundbreak.com as results of discontinued operations in the consolidated statements of operations and comprehensive loss as of and for the year ended December 31, 2000.

COMPETITION

We expect to encounter competition in the area of business opportunities from other entities having similar business objectives. Many of these potential competitors possess financial, technical, human and other resources greater than our own.

The media technologies and life sciences industries are subject to intense competition and rapid and significant technological change. We anticipate that we will face increased competition in the future as new companies enter the market and advanced technologies become available.

Other companies may develop competing technologies that offer better or less expensive alternatives to the V-chip technology and/or our audio-on-demand and video-on-demand technology. Many potential competitors, including television manufacturers and other media technology companies, have significantly greater resources. Technological advances or entirely different approaches developed by one or more of our competitors could render Acacia Media Technologies Group's technologies obsolete or uneconomical.

In the life sciences industry, many competitors have more experience in research and development than CombiMatrix. Technological advances or entirely different approaches developed by one or more of our competitors could render CombiMatrix's processes obsolete or uneconomical. The existing approaches of our competitors or new approaches or technology developed by our competitors may be more effective than those developed by CombiMatrix.

REGULATION

THE INVESTMENT COMPANY ACT OF 1940

The regulatory scope of the Investment Company Act of 1940 ("Investment Company Act"), which was enacted principally for the purpose of regulating vehicles for pooled investments in securities, extends generally to companies engaged primarily in the business of investing, reinvesting, owning, holding or trading in securities. We believe that our anticipated principal activities will not subject us to regulation under the Investment Company Act. However, the Investment Company Act may also be deemed to be applicable to a company which does not intend to be characterized as an investment company but which, nevertheless, engages in activities which may be deemed to be within the scope of certain provisions of the Investment Company Act. In such an event, we may become subject to certain restrictions relating to our activities, including restrictions on the nature of our investments and the issuance of securities. In addition, the Investment Company Act imposes certain requirements on companies deemed to be within its regulatory scope, including registration as an investment company, adoption of a specific form of corporate structure and compliance with certain burdensome reporting, record-keeping, voting, proxy, disclosure and other rules and regulations, all of which could cause significant registration and compliance costs. Accordingly, we will continue to review our activities from time to time with a view toward reducing the likelihood that we could be classified as an "investment company" within scope of the Investment Company Act.

REGULATION OF MEDICAL DEVICES

CombiMatrix intends to sell products to the pharmaceutical, biotechnology and academic communities for research applications. Therefore, its initial products will not require approval from, or be regulated by, the United States Food and Drug Administration ("FDA") as a manufacturer nor will they be subject to the FDA's current good manufacturing practice ("cGMP") regulations. Additionally, CombiMatrix's initial products will not be subject to certain reagent regulations promulgated by the FDA. However, the manufacture, marketing and sale of certain products and services for any clinical or diagnostic applications will be subject to extensive government regulation as medical devices in the United States by the FDA and in other countries by corresponding foreign regulatory authorities.

The FDA requires that a manufacturer seeking to market a new or modified medical device, or an existing medical device for a new indication, obtain either a pre-market notification clearance under the Federal Food, Drug and Cosmetic Act or a showing of substantial equivalence in function to an existing regulated device. CombiMatrix anticipates that its products will become subject to medical device regulations in the United States only when they are marketed for clinical uses for any clinical or diagnostic purpose, excluding pure research or product discovery research purposes. Material changes to existing medical devices are also subject to FDA review and clearance or approval prior to commercialization in the United States.

Should CombiMatrix market products for any clinical or diagnostic purpose or act as a manufacturer or supplier of products for a third-party customer to market for any clinical or diagnostic purpose, it will be required to register as a medical device manufacturer with the FDA. As a registered manufacturer, CombiMatrix would be subject to routine inspection by the FDA for compliance with cGMP regulations and other applicable regulations. In addition, CombiMatrix must currently comply with a variety of other federal, state and local laws and regulations relating to safe work conditions and manufacturing practices. The extent of government regulation that might result from any future legislation or administration cannot be predicted. Moreover, there can be no assurance that CombiMatrix or its third-party customers will be able to obtain appropriate FDA regulatory approvals on a timely basis, or at all, or that CombiMatrix will be able to comply with cGMP regulations.

Sales of CombiMatrix products outside the United States will be subject to foreign regulatory requirements that vary from country to country. Additional approvals from foreign regulatory authorities may be required, and there can be no assurance that CombiMatrix will be able to obtain foreign marketing approvals on a timely basis, or at all, or that it will not be required to incur significant costs in obtaining or maintaining foreign regulatory approvals. For example, if CombiMatrix products are marketed for clinical or diagnostic purposes in the European Union, CombiMatrix will have to obtain the certificates required for the "CE" mark to be affixed to CombiMatrix products for sales in European Union member countries. The "CE" mark is a European Union symbol of adherence to quality assurance standards and compliance with applicable European Union directives and regulations.

ENVIRONMENTAL REGULATION

The operations of CombiMatrix and Advanced Material Sciences involve the use, transportation, storage and disposal of hazardous substances, and as a result, these subsidiaries are subject to environmental and health and safety laws and regulations. Although these subsidiaries currently use fairly small

quantities of hazardous substances, as they expand their operations, their use of hazardous substances will likely increase and lead to additional and more stringent requirements. The cost of complying with these and any future environmental regulations could be substantial. In addition, if one or more of our subsidiaries fails to comply with environmental laws and regulations, or releases any hazardous substance into the environment, such subsidiary could be exposed to substantial liability in the form of fines, penalties, remediation costs and other damages, or could suffer a curtailment or shut down of its operations.

SATELLITE, CABLE AND TELECOMMUNICATIONS REGULATION

Acacia Media Technologies markets and licenses technologies relating to audio-on-demand and video-on-demand. These technologies can be used to transmit content by several means including satellite, cable and telecommunications systems. The satellite, cable and telecommunications industries are subject to federal regulation, including FCC licensing and other requirements. These industries are also often subject to extensive regulation by local and state authorities. While most satellite, cable and telecommunication industry regulations do not apply directly to Acacia Media Technologies, they affect programming distributors, one of the large potential customers for the technologies covered by Acacia Media Technologies' patent portfolio. Acacia Media Technologies monitors pending legislation and administrative proceedings to ascertain relevance, analyze impact and develop strategies regarding regulatory trends and developments within these industries.

Federal law requires cable operators to reserve up to one-third of a system's channel capacity for local commercial television stations that have elected must-carry status. In addition, a cable system is generally required to carry local non-commercial television stations. The FCC has also implemented comparable rules for satellite carriers requiring that if a satellite system carries one local broadcast station in a local market pursuant to a royalty-free license granted under the Satellite Home Viewer Improvement Act of 1999, then it must carry all local broadcast stations in that market. To meet these requirements, some cable and satellite systems must decide which programming services to keep and which to remove in order to make space available for local television stations. These must-carry requirements may impact Acacia Media Technologies' information-on-demand and streaming media business by causing cable and satellite systems operators to reduce the number of channels on their systems that would have used technologies covered by Acacia Media Technologies' patent portfolio.

On January 18, 2001, the FCC issued a Notice of Inquiry ("NOI") concerning Interactive Television ("ITV"). The NOI raises a series of questions that suggest that cable systems might be regarded as essential, open platforms of spectrum for non-discriminatory third-party use, rather than facilities-based providers competing in a wider market. ITV is a service so new that the FCC has difficulty defining it, but the FCC states that it considers ITV to embrace at least electronic program guides, interactive video content, and supplementary signals that wrap around video and provide additional content or services. The NOI seeks comments on the nature of ITV (e.g., what is it, who will provide it, how will it be provided, what are the business models for its provision), and whether cable systems will be a "superior platform" for the provision of ITV. Although the NOI cannot lead directly to rules, it asks very detailed questions all arising from a common regulatory premise: that cable operations who are affiliated with ITV providers should not be permitted to "discriminate" in favor of their own ITV services with respect to spectrum usage; and that ITV providers affiliated with cable operators may need to be subjected to equivalent rules of non-discrimination so that they may not obtain leverage from any exclusive arrangement they would otherwise negotiate with popular programmers. The outcome of the NOI will largely determine whether there will be subsequent FCC regulations for the interactive television industry. As of March 19, 2002, the FCC had not yet proposed any new regulations as a result of the NOI. Any regulation of this industry could impact Acacia Media Technologies' information-on-demand and streaming media business by limiting the growth of the market for these technologies or regulating their licensing, but at this time, it is too speculative to determine what those rules or their impact may be.

RESEARCH AND DEVELOPMENT

We are involved in research and development activities through our consolidated subsidiaries. Our research and development-related expenses, primarily related to CombiMatrix, were $18.8 million, $11.9 million and $1.8 million in 2001, 2000 and 1999, respectively.

Certain of our life sciences subsidiaries are developing a variety of life sciences related products and services. These industries are characterized by rapid technological development. We believe that our future success will depend in large part on our subsidiaries' ability to continue to enhance their existing products and services and to develop other products and services, which complement existing ones. In order to respond to rapidly changing competitive and technological conditions, we expect our subsidiaries to continue to incur significant research and development expenses during the initial development phase of new products and services, as well as on an ongoing basis.

ITEM 2. PROPERTY

Acacia leases approximately 7,143 square feet of office space in Newport Beach, California, under a lease agreement that expires in February 2007. We also lease approximately 7,019 square feet of office space in Pasadena, California, under a lease agreement that expires in November 2003, which is subleased through the remaining term of the lease agreement. Our consolidated subsidiary, CombiMatrix, leases office and laboratory space totaling approximately 63,537 square feet located north of Seattle, Washington, under a lease agreement that expires in December 2008. Presently, we are not seeking any additional facilities.

We are a guarantor under a lease agreement for office space in Hollywood, California that expires in August 2005. The lease agreement was entered into by Soundbreak.com, which ceased operations in February 2001. A portion of the leased premises is subleased through the remaining term of the lease agreement, and we continue to pursue opportunities to sublease the remaining space.

ITEM 3. LEGAL PROCEEDINGS

In the ordinary course of its business, we are the subject of, or party to, various pending or threatened legal actions. We believe that any liability arising from these actions will not have a material adverse effect on our financial position, results of operations or cash flows.

SOUNDVIEW TECHNOLOGIES

On April 5, 2000, Soundview Technologies filed a federal patent infringement and antitrust lawsuit against Sony Corporation of America, Philips Electronics North America Corporation, the Consumer Electronics Manufacturers Association and the Electronics Industries Alliance d/b/a/ Consumer Electronics Association in the United States District Court for the Eastern District of Virginia, alleging that television sets utilizing certain content blocking technology (commonly known as the "V-chip") and sold in the United States infringe Soundview Technologies' U.S. Patent No. 4,554,584. The case is now pending in the U.S. District Court for the District of Connecticut against Sony Corporation of America, Inc., Sony Electronics, Inc., the Electronics Industries Alliance d/b/a/ Consumer Electronics Association, the Consumer Electronics Manufacturers Association, Mitsubishi Digital Electronics America, Inc., Mitsubishi Electronics America, Inc., Toshiba America Consumer Products, Inc. and Sharp Electronics Corporation. However, no assurance can be given that Soundview Technologies will prevail in this action or that the television manufacturers will be required to pay royalties to Soundview Technologies.

During 2001, Soundview Technologies entered into separate confidential settlement and/or license agreements with Hitachi America Ltd., Pioneer Electronics (USA) Incorporated, Samsung Electronics, LG Electronics, Inc., Daewoo Electronics Corporation of America, Sanyo Manufacturing Corporation, Funai Electric Co., Ltd., JVC Americas Corporation, Thomson Multimedia, Inc., Orion Electric Co., Ltd. and Matsushita Electric Industrial Co., Ltd. whereby Soundview Technologies will receive payments and grant non-exclusive licenses of its V-chip patent. In 2000, Soundview Technologies settled its lawsuit with Philips Electronics North America Corporation.

On November 28, 2000, Nanogen filed a complaint in the United States District Court for the Southern District of California against CombiMatrix and Donald D. Montgomery, Ph.D., Senior Vice President, Chief Technology Officer and a director of CombiMatrix. Dr. Montgomery was employed by Nanogen as a senior research scientist between May 1994 and August 1995. The Nanogen complaint alleges, among other things, breach of contract, trade secret misappropriation and that U.S. Patent No. 6,093,302 and other proprietary information belonging to CombiMatrix are instead the property of Nanogen. The complaint seeks, among other things, correction of inventorship on the patent, the assignment of rights in the patent and pending patent applications to Nanogen, an injunction preventing disclosure of trade secrets, damages for trade secret misappropriation and the imposition of a constructive trust. On December 15, 2000, CombiMatrix and Dr. Montgomery filed a motion to dismiss the lawsuit, which was denied in part and granted in part on February 1, 2001. On March 9, 2001, CombiMatrix and Dr. Montgomery filed a counterclaim, alleging breach of express covenants not to sue or otherwise interfere with Dr. Montgomery arising out of a release signed by Nanogen in 1996. On April 4, 2001, Nanogen filed a motion to dismiss the counterclaim, which the court denied in its entirety on July 27, 2001. Fact discovery is ongoing and is scheduled to close on June 3, 2002. CombiMatrix intends to vigorously defend the lawsuit and pursue the counterclaim. Although we believe that Nanogen's claims are without merit, we cannot predict the outcome of the litigation.

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

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

RECENT MARKET PRICES

Our common stock began trading under the symbol ACRI on the NASDAQ National Market System on July 8, 1996. Prior to our listing on the NASDAQ National Market System and subsequent to June 15, 1995 when our Registration Statement on Form SB-2 became effective under the Securities Act of 1933, as amended, our common stock traded under the same symbol in the over-the-counter market. Preceding June 15, 1995, there had been no public market for our common stock.

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

On March 16, 1998, our board of directors declared a two-for-one split of our common stock in the form of a 100% stock dividend. We distributed the stock dividend on or about June 12, 1998 for each share held of record at the close of business on May 29, 1998. All share and per share information presented herein is adjusted for the stock split.

On October 22, 2001, our board of directors declared a ten percent (10%) stock dividend. The stock dividend, totaling 1,777,710 shares, was distributed on December 5, 2001 for stockholders of record as of November 21, 2001. All share and per share information presented herein is adjusted for the stock dividend.

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

2000	HIGH	LOW
First Quarter	$53.64	$26.82
Second Quarter	$39.09	$12.16
Third Quarter	$32.05	$19.89
Fourth Quarter	$33.81	$12.50

2001	HIGH	LOW
First Quarter	$18.98	$ 5.23
Second Quarter	$16.14	$ 4.69
Third Quarter	$16.66	$ 5.83
Fourth Quarter	$13.42	$ 8.29

On March 22, 2001, the closing bid and asked quotations for our common stock were $11.75 and $11.76, respectively, per share.

On March 22, 2001, there were approximately 211 owners of record of our common stock. The majority of the outstanding shares of common stock are held by a nominee holder on behalf of an indeterminable number of ultimate beneficial owners.

DIVIDEND POLICY

To date, we have not declared or paid any cash dividends with respect to our capital stock, and the current policy of the board of directors is to retain earnings, if any, to provide for the growth of Acacia. 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.

ITEM 6. SELECTED FINANCIAL DATA

The selected financial data set forth below as of December 31, 2001 and 2000 and for the years ended December 31, 2001, 2000 and 1999 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 selected financial data as of December 31, 1999, 1998 and 1997 and for the years ended December 31, 1998 and 1997 have been derived from audited consolidated financial statements not included herein, but which were previously filed with the SEC.

CONSOLIDATED STATEMENT OF OPERATIONS DATA:

	2001	2000	1999	1998	1997
Revenues:					
License fee income	$ 24,180,000	$ --	$ --	$ --	$ --
Grant revenue	456,000	17,000	144,000	--	--
Capital management fee income and other	--	40,000	122,000	382,000	491,000
Total revenues	$ 24,636,000	$ 57,000	$ 266,000	$ 382,000	$ 491,000
Operating loss	$(43,198,000)	$(37,163,000)	$ (7,580,000)	$ (5,842,000)	$ (3,420,000)
Other income (expense), net	4,166,000	(1,235,000)	(1,042,000)	(545,000)	(100,000)
Loss from continuing operations before minority interests	(39,812,000)	(38,325,000)	(8,642,000)	(6,387,000)	(3,270,000)
Minority interests	17,540,000	9,166,000	1,221,000	198,000	411,000
Loss from continuing operations	(22,272,000)	(29,159,000)	(7,421,000)	(6,189,000)	(2,859,000)
Loss from discontinued operations (1)	--	(9,554,000)	(776,000)	--	--
Loss before cumulative effect of change in accounting principle	(22,272,000)	(38,713,000)	(8,197,000)	(6,189,000)	(2,859,000)
Cumulative effect of change in accounting principle due to beneficial conversion feature	--	(246,000)	--	--	--
Net loss	(22,272,000)	(38,959,000)	(8,197,000)	(6,189,000)	(2,859,000)
Loss per common share:					
Basic and diluted					
Loss from continuing operations	$ (1.16)	$ (1.78)	$ (0.59)	$ (0.58)	$ (0.42)
Loss from discontinued operations	--	(0.58)	(0.06)	--	--
Cumulative effect of change in accounting principle	--	(0.02)	--	--	--
Net loss	$ (1.16)	$ (2.38)	$ (0.65)	$ (0.58)	$ (0.42)
Weighted average number of common and potential shares outstanding used in computation of loss per common share (2):					
Basic	19,259,256	16,346,099	12,649,133	10,748,982	6,739,996
Diluted	19,259,256	16,346,099	12,649,133	10,748,982	6,739,996

CONSOLIDATED BALANCE SHEET DATA:

	2001	2000	1999	1998	1997
Total assets	$110,859,000	$ 98,516,000	$ 51,791,000	$ 19,769,000	$ 8,854,000
Long-term indebtedness	--	--	--	1,222,000	--
Total liabilities (3)	19,824,000	20,848,000	1,633,000	1,828,000	447,000
Minority interests (3)	32,303,000	17,524,000	4,896,000	--	227,000
Stockholders' equity	58,732,000	60,144,000	45,262,000	17,941,000	8,180,000

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(1) Operating results in 1999 have been restated to present Soundbreak.com as discontinued operations. See Note 9 to the 2001 consolidated financial statements.

(2) Potential common shares in 2001, 2000, 1999, 1998 and 1997 have been excluded from the per share calculation because the effect of their inclusion would be anti-dilutive. In addition, all share and per share information has been adjusted as appropriate for all periods presented to reflect a two-for-one stock split effected in March 1998 and a ten percent (10%) stock dividend distributed on December 5, 2001 for stockholders of record as of November 21, 2001.

(3) Effective January 1, 2001, Acacia changed its accounting policy for balance sheet classification of employee stock-based compensation resulting from awards in consolidated subsidiaries. As a result, effective January 1, 2001, amortized non-cash stock compensation charges related to subsidiary stock options are included in minority interests in our consolidated balance sheet. Prior to the change in accounting policy, amortized non-cash stock compensation charges related to subsidiary stock options were reflected as "accrued stock compensation" in consolidated liabilities. There is no impact on previous consolidated statements of operations as a result of this change in accounting policy.

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

GENERAL

Acacia Research Corporation develops, licenses and provides products for the media technology and life science sectors. Acacia's media technologies and life sciences businesses are referred to as "Acacia Media Technologies Group" and "Acacia Life Sciences Group," respectively. Acacia licenses its V-chip technology to television manufacturers and owns pioneering technology for digital streaming and audio and video-on-demand. We will continue to pursue both licensing and strategic business alliances with leading companies in the rapidly growing media technologies industry. Acacia's core technology opportunity in the life science sector has been developed through our majority-owned subsidiary, CombiMatrix, which is developing a proprietary system for rapid, cost competitive creation of DNA and other compounds on a programmable semiconductor chip.

In 2001, our financial condition and results of operations were highlighted by the receipt of $25.6 million in payments from the licensing of our television V-chip technology, and $6.4 million received by CombiMatrix pursuant to separate license, supply and research and development agreements with Roche Diagnostics GmbH ("Roche") and the National Aeronautics and Space Administration ("NASA") and continued performance under its Phase II SBIR contract with the U.S. Department of Defense. In addition, CombiMatrix continued its expansion of research and development activities in 2001. In 2000, our financial condition and results of operations were highlighted primarily by the continued expansion of research and development and the building of the management team at CombiMatrix. In 1999, our financial condition and results of operations were highlighted primarily by the investment in our subsidiary, Soundbreak.com, and the expansion associated with CombiMatrix's research and development. In the following discussion and analysis, the period-to-period comparisons must be viewed in light of the impact that the acquisition and disposition of securities of various business interests has had on our financial condition and results of operations.

During 2001, we began to receive significant payments from the licensing of our television V-chip technology to television manufacturers. In addition, CombiMatrix began to receive significant payments from its strategic partners and licensees. However, to date, our subsidiary companies have relied primarily upon selling equity securities, including sales to and loans from us, to generate the funds needed to finance the implementation of their plans of operation. Our subsidiary companies may be required to obtain additional financing through bank borrowings, debt or equity financings or otherwise, which would require us to make additional investments or face a dilution of our equity interests.

We cannot assure that we will not encounter unforeseen difficulties that may deplete our capital resources more rapidly than anticipated. Any efforts to seek additional funds could be made through equity, debt or other external financings; however, we cannot assure that additional funding will be available on favorable terms, if at all. If we fail to obtain additional funding when needed for our subsidiary companies, and ourselves, we may not be able to execute our business plans and our business may suffer.

ACQUISITION AND OPERATING ACTIVITIES

During 2001, we continued to significantly increase financing, acquisition and operating activities while receiving significant payments from our media technologies licensing arrangements and from our life science strategic partners and licensees. We intend to continue to pursue both licensing and strategic business alliances with leading companies in the rapidly growing media technologies industry. Additionally, we intend to continue to invest in growing our life science businesses by identifying and developing opportunities in the life science sector that will be created by commercializing the new biochip technology of CombiMatrix and other related investments in that sector. Financing activities are listed in the Liquidity and Capital Resources section that follows. Highlights of the acquisition and operating activities for the year ended December 31, 2001 include:

FIRST QUARTER:

In the first quarter of 2001, Soundview Technologies executed separate settlement and/or license agreements with Samsung Electronics, Hitachi America, Ltd., LG Electronics, Inc., Funai Electric Company, Ltd., Daewoo Electronics Corporation of America and Sanyo Manufacturing Corporation. In addition, Soundview Technologies settled its lawsuits with Pioneer Electronics (USA) Incorporated. Certain of these license agreements constitute settlements of patent infringement litigation brought by Soundview Technologies. The settlement

and license agreements provide for licensing payments to Soundview Technologies, and grant non-exclusive licenses of Soundview Technologies' U.S. Patent No. 4,554,584 to the respective television manufacturers. Certain of these settlement and license agreements provide for future royalty payments to Soundview Technologies. We received, and recognized as revenue, $2.4 million in license fee payments during the first quarter of 2001. In addition, we received a payment of $1.0 million pursuant to a settlement and license agreement executed in December 2000, which is included in deferred revenues at December 31, 2001.

In February 2001, the board of directors of Soundbreak.com resolved to cease operations as of February 15, 2001 and liquidate its remaining assets and liabilities of the company. Accordingly, we reported the results of operations and the estimated loss on disposal of Soundbreak.com as results of discontinued operations in the consolidated statements of operations and comprehensive loss as of and for the year ended December 31, 2000.

SECOND QUARTER:

In June 2001, our ownership interest in Soundview Technologies increased from 67% to 100%, following Soundview Technologies' completion of a stock repurchase transaction with its former minority stockholders. Soundview Technologies repurchased the stock of its former minority stockholders in exchange for a cash payment and the grant to such stockholders of the right to receive 26% of future net revenues generated by Soundview Technologies' current patent portfolio, which includes its V-chip patent.

During the second quarter of 2001, Soundview Technologies executed separate settlement and license agreements with Thomson Multimedia, Inc. and JVC Americas Corporation. Certain of these settlement and license agreements provide for future royalty payments to Soundview Technologies. We received, and recognized as revenue, license fee payments totaling $10.0 million during the second quarter of 2001.

THIRD QUARTER:

In the third quarter of 2001, Soundview Technologies executed separate settlement and/or license agreements with Matsushita Electric Industrial Co., Ltd. and Orion Electric Co., Ltd. We received, and recognized as revenue, license fee payments totaling $10.7 million during the third quarter of 2001. In addition, we received a payment of $0.5 million pursuant to a license agreement executed in December 2000, which is included in deferred revenues at December 31, 2001.

In July 2001, CombiMatrix entered into a non-exclusive worldwide license, supply, and research and development agreement with Roche. Under the terms of the agreement, it is contemplated that Roche will purchase, use and resell CombiMatrix's biochips (microarrays) and related technology for rapid production of customizable biochips. Additionally, CombiMatrix and Roche will develop a platform technology, providing a range of standardized biochips for use in important research applications. Roche will make payments for the deliverables contemplated and for expanded license rights.

The agreement allows Roche in the future to use, develop and resell licensed CombiMatrix products in diagnostic applications. The agreement includes a revenue sharing arrangement and has a term of 15 years. The agreement provides for minimum payments by Roche to CombiMatrix over the first three years, including milestone achievements, payments for products, royalties and research and development projects. In the third quarter of 2001, CombiMatrix received an up-front payment under the Roche agreement, which is included in deferred revenues at December 31, 2001.

In August 2001, CombiMatrix entered into a license and supply agreement with NASA. The agreement provides for the license, purchase and use by the NASA Ames Research Center of CombiMatrix's active biochips (microarrays) and related technology to conduct biological research in terrestrial laboratories and in space.

FOURTH QUARTER:

On October 22, 2001, our board of directors declared a ten percent (10%) stock dividend. The stock dividend, totaling 1,777,710 shares, was distributed on December 5, 2001 for stockholders of record as of November 21, 2001. All share and per share information presented herein is adjusted for the stock dividend.

In October 2001, CombiMatrix formed a joint venture with Marubeni Japan, one of Japan's leading trading companies. The joint venture, based in Tokyo, will focus on development and licensing opportunities for CombiMatrix's biochip technology with pharmaceutical and biotechnology companies in the Japanese market. Marubeni made an investment to acquire a ten percent (10%) minority interest in the joint venture.

In November 2001, we increased our ownership interest in Acacia Media Technologies, formerly Greenwich Information Technologies LLC, from 33% to 100% through the purchase of the ownership interest of the former limited liability company's other member. In December 2001, we converted the company from a

limited liability company to a corporation and changed the name of the company to Acacia Media Technologies Corporation. Acacia Media Technologies owns a worldwide portfolio of pioneering patents relating to audio and video transmission and receiving systems, commonly known as audio-on-demand and video-on-demand, used for distributing content via various methods including computer networks, cable television systems and direct broadcasting satellite systems.

In December 2001, CombiMatrix completed a major milestone in its strategic alliance with Roche. CombiMatrix demonstrated several key performance metrics of its custom in-situ microarray system. In the fourth quarter of 2001, CombiMatrix received certain milestone payments under the Roche agreement, which are included in deferred revenues at December 31, 2001.

In the fourth quarter of 2001, we received, and recognized as revenue, license fee payments totaling $1.0 million. In addition, CombiMatrix received payments under its license and supply agreement with NASA, which are included in deferred revenues at December 31, 2001.

As of September 30, 2001, CombiMatrix capitalized costs incurred in connection with the filing of a registration statement with the SEC in November 2000 totaling $1.4 million. Approximately $0.9 million of these costs were included in current assets in our December 31, 2000 consolidated balance sheet. In the fourth quarter of 2001, all of these deferred costs were charged to operations due to uncertainty regarding the future recoverability of such costs stemming from unfavorable market conditions in late 2001 and early 2002.

EFFECT OF VARIOUS ACCOUNTING METHODS ON OUR RESULTS OF OPERATIONS

CRITICAL ACCOUNTING POLICIES

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements:

- revenue recognition;
- research and development expenses;
- litigation, claims and assessments;
- stock-based compensation;
- accounting for income taxes; and
- valuation of long-lived and intangible assets and goodwill.

REVENUE RECOGNITION. We derive our revenues from three primary sources: (i) fees from the licensing of our television V-chip technology to television manufacturers, (ii) revenues under multiple-element arrangements with strategic partners and licensees and (iii) government grant revenues.

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

Television V-chip License Fees: Our television V-chip technology settlement and/or license agreements provide for the payment of contractually determined license fees to us in consideration for the grant to certain television manufacturers of a non-exclusive, retroactive and future license to manufacture and/or sell products covered by Soundview Technologies' U.S. Patent No. 4,554,584, through July 2003. Certain of the agreements also provide for future royalties or additional required payments based on future television sales or the outcome of future litigation and settlement activities. The agreements executed with the various television manufacturers include certain release provisions with respect to Soundview Technologies' ongoing patent infringement and anti-trust enforcement efforts. Amounts received under the settlement and license agreements are recorded as license fee income in our consolidated statement of operations and comprehensive loss.

License fee income is recognized as revenue when (i) persuasive evidence of an arrangement exists, (ii) all obligations have been performed pursuant to the terms of the license agreement, (iii) amounts are fixed or determinable and (iv) collectibility of amounts is reasonably assured. Pursuant to the terms of the agreements, we have no further obligation with respect to the sale of the non-exclusive retroactive and future license, including no

express or implied obligation on our part to maintain or upgrade the technology or license, or provide future support or services. Generally, the agreements provide for the grant of the license upon receipt by Soundview Technologies of payment of the contractual license fee. As such, the earnings process is generally complete upon the receipt of payment from the television manufacturer, and revenue is recognized when all of the criteria above are met.

License fee payments received by us that do not meet the revenue recognition criteria above are recorded as deferred revenues until the criteria are met. In the event that license fee amounts due from television manufacturers have been accrued, we assess collection based on a number of factors, including past transaction history and credit-worthiness. If we determine that collection of an accrued license fee is not reasonably assured, we defer the fee and recognize revenue upon receipt of cash.

Revenues Under Multiple-Element Arrangements with Strategic Partners and Licensees: CombiMatrix entered into a non-exclusive worldwide license, supply, research and development agreement with Roche in July 2001. Under the terms of the agreement, Roche will purchase, use and resell CombiMatrix's microarray and related technologies for rapid production of customizable biochips. Additionally, CombiMatrix and Roche will develop a platform technology, providing a range of standardized biochips for use in research applications. The agreement has a 15-year term and provides for minimum payments by Roche to CombiMatrix over the first three years, including milestone achievements, payments for products, royalties and research and development projects.

Revenues from the sale of products and services under multiple-element arrangements are recognized when (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or services have been rendered, (iii) the fees are fixed and determinable and (iv) collectibility is reasonably assured.

Pursuant to Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB No. 101"), an arrangement with multiple deliverables should be segmented into individual units of accounting based on the separate deliverables only if there is objective and reliable evidence of fair value to allocate the consideration to the deliverables. Accordingly, revenues from multiple-element arrangements involving license fees, up-front payments and milestone payments, which are received or billable in connection with other rights and services that represent continuing obligations of CombiMatrix, are deferred until all of the elements have been delivered or until objective and verifiable evidence of the fair value of the undelivered elements has been established.

Upon establishing verifiable evidence of the fair value of the elements in multiple-element arrangements, the fair value is allocated to each element of the arrangement, such as licensing or research and development deliverables, based on the relative fair values of the elements. We determine the fair value of each element in multiple-element arrangements based on objective and verifiable evidence of the price charged when the same element is sold separately. If evidence of fair value of all undelivered elements exists but evidence does not exist for one or more delivered elements, then revenue is recognized using the residual method. Under the residual method, the fair value of the undelivered elements is deferred and the remaining portion of the arrangement fee is recognized as revenue.

For the year ended December 31, 2001, CombiMatrix received payments totaling $5.3 million from Roche, including up-front payments and milestone payments, which are classified as deferred revenues in the accompanying December 31, 2001 consolidated balance sheet due to management's determination that the payments received relate to elements for which objective and reliable evidence of fair value does not currently exist. Pursuant to SAB No. 101, the elements associated with the amounts received to date and additional payments will be treated as one accounting unit. The up-front fees and cash payments received upon the accomplishment of the contractual milestones will be deferred. Revenue will be recognized when all of the related elements, for which objective and reliable evidence does not exist, have been delivered and there is objective and reliable evidence to support the fair value for all of the undelivered elements.

Government Grants: Revenues from government grants and contracts are recognized when the related services are performed and approved by the grantor and when collectibility is reasonably assured. Amounts recognized are limited to amounts due from customers based upon the contract or grant terms.

RESEARCH AND DEVELOPMENT EXPENSES. Our research and development expenses to date have been incurred primarily by our CombiMatrix subsidiary. CombiMatrix is engaged in several research and development initiatives to expand its product offerings by increasing the number of test sites on their active biochips from 1,024 sites per square centimeter currently to over 10,000 sites per square centimeter and by developing additional applications of its technology for drug discovery and development.

Research and development expenses have been CombiMatrix's largest expense to date. Research and development expenses primarily relate to costs of developing its semiconductor-based, active biochip system, including salaries and benefits, recruiting and relocation expenses related to the expansion of its research and development staff, costs associated with increased usage of

laboratory materials and supplies and increased facilities costs. CombiMatrix expects to continue to incur significant expenses for research and development, for developing and expanding its manufacturing capabilities and for other efforts to commercialize its products. As a result, we expect that our research and development expenses will continue to increase in the foreseeable future.

In July 2001, CombiMatrix signed a non-exclusive license and supply agreement and a research and development agreement with Roche in the genomics and related diagnostic fields, which provide for payments to CombiMatrix upon development of proposed products incorporating its technology. In 2001, research and development expenses incurred were primarily driven by CombiMatrix's obligations under the research and development agreement with Roche. These projects include continued development of production microarray synthesis techniques, as well as higher density microarrays. These projects are expected to continue into 2002 and 2003 as determined by the timelines outlined in CombiMatrix's agreements with Roche.

We account for research and development expenses pursuant to Statement of Financial Accounting Standards ("SFAS") No. 2, "Accounting for Research and Development Costs" ("SFAS No. 2"). SFAS No. 2 requires that all research and development costs, as defined therein, be charged to expense as incurred. Research and development expenses incurred to date consist of costs incurred for direct and overhead-related research expenses and are expensed as incurred. Costs to acquire technologies which are utilized in research and development and which have no alternative future use are expensed when incurred. Costs related to filing and pursuing patent applications are expensed as incurred, as recoverability of such expenditures is uncertain. Under SFAS No. 2, research and development refers to a plan or design for a new product or process or for a significant improvement to an existing product or process whether intended for sale or use. Significant management estimates are required with respect to the determination of which costs relate to plans or designs for a new product or process or for a significant improvement to an existing product. Had management determined that certain costs incurred were not related to research and development activities, different accounting treatment for such costs may have been required.

The costs of software developed for use in CombiMatrix's products is expensed as incurred until technological feasibility for the software has been established. Software development costs incurred to date have been classified as research and development expenses. Significant management estimates are required with respect to the determination of when technological feasibility for the software has been established. Technological feasibility is established upon completion of a detail program design or, in its absence, completion of a working model. Thereafter, all software production costs are required to be capitalized and subsequently reported at the lower of unamortized cost or net realizable value. Had management made differing judgments regarding technological feasibility, different accounting treatment of costs of software developed for use in CombiMatrix's products may have been required.

LITIGATION, CLAIMS AND ASSESSMENTS. The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Specifically, our management must make estimates of whether (i) it is probable that an asset has been impaired or a liability has been incurred at the date of the consolidated financial statements and (ii) whether the amount of loss can be reasonably estimated. In the event that in management's estimation it is probable that an asset has been impaired or a liability has been incurred at the date of the consolidated financial statements and amounts of loss can be reasonably estimated, the estimated contingent loss from the loss contingency is accrued by a charge to income.

Because of the uncertainties related to both probabilities of outcome and amounts and ranges of potential loss associated with outstanding claims and pending litigation at December 31, 2001, management is unable to make a reasonable estimate of the likelihood of outcome or the liability that could result from an unfavorable outcome. As such, we have not accrued for any loss contingencies as of December 31, 2001. As additional information becomes available, we will assess the potential liability related to our pending litigation and revise our estimates. Such revisions in our estimates of the potential liability could materially impact our results of operation and financial position.

STOCK-BASED COMPENSATION. Acacia's stock option policies provide for the granting of stock options to employees, generally, at exercise prices equal to the fair value of the underlying stock on the date of grant. The fair values of Acacia stock option grants are determined by reference to the quoted market prices of our stock as listed on the NASDAQ National Market System on the grant date. The fair values of stock options granted by our non-public subsidiaries are determined by the board of directors of the respective companies.

Non-cash stock compensation cost related to stock options issued to employees is accounted for in accordance with Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25"), and related interpretations. Compensation cost attributable to such options is recognized based on the difference, if any, between the closing

market price of the stock on the date of grant and the exercise price of the option. Compensation cost is deferred and amortized on an accelerated basis over the vesting period of the individual option awards using the amortization method prescribed in Financial Accounting Standards Board ("FASB") Interpretation No. 28, "Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans" ("FIN No. 28"). Non-cash compensation cost of stock options and warrants issued to non-employee service providers, which has not been significant, is accounted for under the fair value method required by SFAS No. 123 and Emerging Issues Task Force Issue No. 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services."

During the year ended December 31, 2000, CombiMatrix recorded deferred non-cash stock compensation charges aggregating approximately $53.8 million in connection with the granting of stock options. Pursuant to Acacia's policy, the stock options were originally granted by CombiMatrix at exercise prices equal to the fair value of the underlying CombiMatrix stock on the date of grant as determined by its board of directors. However, such exercise prices were subsequently determined to have been granted at exercise prices below fair value due to a substantial step-up in the fair value of CombiMatrix pursuant to a valuation provided by an investment banker in contemplation of a potential CombiMatrix initial public offering in 2000. In connection with the proposed CombiMatrix initial public offering and pursuant to SEC rules and guidelines, we were required to reassess the value of stock options issued during the one-year period preceding the potential initial public offering and utilize the stepped-up fair value provided by the investment banker for purposes of determining whether such stock option issuances were compensatory, resulting in the calculation of the $53.8 million in deferred non-cash stock compensation charges in 2000. Deferred non-cash stock compensation charges are being amortized over the respective option grant vesting periods, which range from one to four years. Non-cash stock compensation charged to income during 2001 totaled $20.8 million and related primarily to the continued amortization of CombiMatrix's deferred stock compensation amounts during 2001. Pursuant to the vesting terms of CombiMatrix's stock options outstanding at December 31, 2001, we will incur non-cash stock compensation amortization expenses of $8.1 million in 2002, $3.6 million in 2003 and $1.1 million in 2004.

During the third and fourth quarters of 2001, certain CombiMatrix unvested stock options were forfeited. Pursuant to the provisions of APB No. 25 and related interpretations, the reversal of previously recognized non-cash stock compensation expense on forfeited unvested stock options, in the amount of $4.7 million, has been reflected in the 2001 consolidated statement of operations and comprehensive loss as a reduction in 2001 non-cash stock compensation expense. In addition, the forfeiture of certain unvested options during 2001 resulted in a reduction of the remaining deferred non-cash stock compensation expense scheduled to be amortized in future periods.

Amounts to be amortized in future periods reflected above may be impacted by certain subsequent stock option transactions including modification of terms, cancellations, forfeitures and other activity.

ACCOUNTING FOR INCOME TAXES. As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves the estimating of our actual current tax exposure together with assessing temporary differences resulting from differing treatment of items, such as deferred revenue, amortization of intangibles and asset depreciation for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheet. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income and to the extent we believe that recovery is not likely, we must establish a valuation allowance. To the extent we establish a valuation allowance or increase this allowance in a period, we must include an expense within the tax provision in the consolidated statement of operations and comprehensive loss.

Significant management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities and our valuation allowance. We have recorded a full valuation allowance against our net deferred tax assets of $49.9 million as of December 31, 2001, due to uncertainties related to our ability to utilize our deferred tax assets, primarily consisting of certain net operating losses carried forward, before they expire. In assessing the need for a valuation allowance, we have considered our estimates of future taxable income, the period over which our deferred tax assets may be recoverable, our history of losses and our assessment of the probability of continuing losses in the foreseeable future. In management's estimate, any positive indicators, including forecasts of potential future profitability of our businesses, are outweighed by the uncertainties surrounding our estimates and judgments of potential future taxable income. In the event that actual results differ from these estimates or we adjust these estimates should we believe we would be able to realize these deferred tax assets in the future, an adjustment to the valuation allowance would increase income in the period such determination was made. Any changes in the valuation allowance could materially impact our financial position and results of operations.

VALUATION OF LONG-LIVED AND INTANGIBLE ASSETS AND GOODWILL. We assess the impairment of identifiable intangibles, long-lived assets and related goodwill and enterprise level goodwill whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors we consider important which could trigger an impairment review include the following:

- o significant underperformance relative to expected historical or projected future operating results;
- o significant changes in the manner of our use of the acquired assets or the strategy for our overall business;
- o significant negative industry or economic trends; and
- o significant decline in our stock price for a sustained period.

When we determine that the carrying value of intangibles, long-lived assets and related goodwill and enterprise level goodwill may not be recoverable based upon the existence of one or more of the above indicators of impairment, we measure any impairment based on a projected discounted cash flow method using a discount rate determined by our management to be commensurate with the risk inherent in our current business model. Net intangible assets, long-lived assets and goodwill amounted to $21.4 million as of December 31, 2001.

In 2002, SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"), became effective and as a result, we will cease to amortize approximately $4.7 million of goodwill effective January 1, 2002. We recorded approximately $1.1 million of amortization on these amounts during 2001. In lieu of amortization, we are required to perform an initial impairment review of our goodwill in 2002 and an annual impairment review thereafter. We expect to complete our initial review during the first quarter of 2002. We currently do not expect to record an impairment charge upon completion of the initial impairment review. However there can be no assurance that at the time the review is completed, a material impairment charge will not be recorded.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144"), which addresses financial accounting and reporting for the impairment of long-lived assets and for long-lived assets to be disposed of. SFAS No. 144 requires long-lived assets to be tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. In conjunction with such tests, it may be necessary to review depreciation estimates and methods as required by APB Opinion No. 20, "Accounting Changes," or the amortization period as required by SFAS No. 142.

ACCOUNTING FOR INVESTMENTS

The various interests that we acquire in our investees are accounted for under two broad accounting methods: (i) the consolidation method and (ii) the equity method. The applicable accounting method is generally determined based on our voting interest in an investee.

Consolidation. Investees in which we directly or indirectly own more that 50% of the outstanding voting securities are generally accounted for under the consolidation method of accounting. Under this method, the investee's accounts are reflected within our consolidated statements of operations and comprehensive loss. Participation of other stockholders in the earnings or losses of a consolidated investee is reflected in the caption "minority interests" in our consolidated statements of operations and comprehensive loss. Minority interests adjust our consolidated net results of operations to reflect only our share of the earnings or losses of consolidated, non-wholly-owned investees. In the case in which losses applicable to the minority interests in an investee exceed the minority interests in the equity capital of the investee, such excess and any further losses applicable to the minority interests are charged against the majority interest. However, if future earnings materialize, the majority interest will be credited to the extent of such losses previously absorbed.

Equity Method. Investees, over whom we exercise significant influence, whose results we do not consolidate, are generally accounted for under the equity method of accounting. Whether or not we exercise significant influence with respect to an investee depends on an evaluation of several factors including, among others, representation on the investee's board of directors and ownership level, which is generally 20% to 50% interest in the voting securities of the investee, including voting rights associated with our holdings in common, preferred and other convertible instruments in the investee. Under the equity method of accounting, an investee's accounts are not reflected within our consolidated statements of operations and comprehensive loss; however, our share of the earnings or losses of the investee is reflected in the caption "equity income (losses) of affiliates" in the consolidated statements of operations and comprehensive loss.

At December 31, 2001, we have consolidated all of our investees over whom we exercise significant control. On November 1, 2001, we increased our ownership interest in Acacia Media Technologies from 33% to 100% through the purchase of the ownership interest of the former limited liability company's other member. The results of operations have been included in the consolidated statements of operations and comprehensive loss from November 1, 2001.

In most cases, we have representation on the boards of directors of our investees. In addition to our investments in voting equity securities, we also periodically make advances to our subsidiaries in the form of promissory notes.

RESULTS OF OPERATIONS

	2001	2000	1999
Revenues	$ 24,636,000	$ 57,000	$ 266,000
Research and development expenses	(18,839,000)	(11,864,000)	(1,806,000)
Marketing, general and administrative expenses	(46,300,000)	(22,089,000)	(4,418,000)
Amortization of patents and goodwill	(2,695,000)	(2,251,000)	(1,622,000)
Loss on disposal of consolidated subsidiaries	--	(1,016,000)	--
Other income (expense), net	4,166,000	(1,235,000)	(1,042,000)
Minority interests	17,540,000	9,166,000	1,221,000
Loss from discontinued operations of Soundbreak.com	--	(7,443,000)	(776,000)
Loss from disposal of Soundbreak.com	--	(2,111,000)	--
(Provision) benefit for income taxes	(780,000)	73,000	(20,000)
Cumulative effect of change in accounting principle	--	(246,000)	--
Net loss	$(22,272,000)	$(38,959,000)	$ (8,197,000)

2001 COMPARED TO 2000

LICENSE FEE INCOME. In 2001, license fee income was $24.2 million as compared to no license fee income during 2000. The increase in license fee income for 2001 resulted primarily from the settlement of patent infringement litigation brought by Soundview Technologies and includes license fee amounts received from eleven of the twelve television manufacturers with whom we have executed separate settlement and/or license agreements during 2001 and 2000. Pursuant to the terms of the respective settlement and license agreements with each of the television manufacturers, Soundview Technologies granted to such manufacturers, non-exclusive licenses for its U.S. Patent No. 4,554,584.

GRANT REVENUE. In 2001, grant revenue was $0.5 million as compared to $0.02 million in grant revenue in 2000. The increase in grant revenue during 2001 resulted from CombiMatrix's continuing performance under its Phase II Small Business Innovative Research Department of Defense contract.

RESEARCH AND DEVELOPMENT EXPENSES. In 2001, research and development expense was $18.8 million, all of which related to CombiMatrix, as compared to $11.9 million in 2000, of which $9.3 million related to CombiMatrix. The increase in research and development expense for 2001 as compared to the same period in 2000 was primarily due to a general expansion of CombiMatrix's research and development activities, including an increase in personnel and amounts of supplies and materials used, an increase in CombiMatrix's non-cash stock compensation charges included in research and development expense, increased costs related to efforts to further develop and enhance its microarray technology and increased costs related to significant engineering efforts undertaken to productize its technology. Most of these efforts were driven by CombiMatrix's obligations under the license and supply agreement with Roche, executed in July 2001. These projects include development of production microarray synthesis techniques, as well as higher density microarrays. These projects are expected to continue into 2002 and 2003, as determined by the timelines outlined in CombiMatrix's agreements with Roche.

In 2001, research and development expense included non-cash stock compensation charges, all of which related to CombiMatrix, totaling $7.2 million. Non-cash stock compensation charges for 2001 are net of $0.8 million of non-cash stock compensation expense reversal related to the forfeiture of certain unvested stock options during the third and fourth quarters of 2001. In 2000, research and development expense for non-cash stock compensation was $3.4 million.

MARKETING, GENERAL AND ADMINISTRATIVE EXPENSES. We incurred marketing, general and administrative expenses of $46.3 million ($27.7 million related to CombiMatrix) in 2001, compared to $22.1 million ($11.2 million related to CombiMatrix) in 2000. The increase in marketing, general and administrative expenses for 2001 as compared to the same period in 2000 was primarily due to an increase in non-cash stock compensation charges, the continued expansion of CombiMatrix's operations including an increase in salaries and benefits due to an increase in the number of CombiMatrix personnel, an increase in personnel recruitment and relocation expenses, an increase in rent and utilities expenses relating to CombiMatrix's move to larger office facilities during the first quarter of 2001, the write-off of $1.4 million of deferred initial public offering costs in the fourth quarter of 2001 by CombiMatrix and an increase in legal fees related to Soundview Technologies' patent licensing and related infringement settlements.

Marketing, general and administrative expenses included $13.6 million ($12.8 million related to CombiMatrix) and $7.3 million ($6.5 million related to CombiMatrix) of non-cash stock compensation charges for 2001 and 2000,

respectively. Marketing, general and administrative non-cash stock compensation charges for 2001 are net of $3.9 million of non-cash stock compensation expense reversal related to the forfeiture of certain unvested stock options during the third and fourth quarters of 2001.

AMORTIZATION OF PATENTS AND GOODWILL. In 2001, amortization expense relating to patents and goodwill was $2.7 million as compared to $2.3 million in 2000. As a result of the increase in our ownership interest in Acacia Media Technologies from 33% to 100% through the purchase of the ownership interest of Acacia Media Technologies' other member in November 2001, and the purchase of additional equity interests in CombiMatrix in July 2000, we incurred additional amortization expense in 2001 as compared to 2000 relating to the intangible assets acquired. See "Recent Accounting Pronouncements" for summary of pronouncements affecting amortization of goodwill in future periods.

LOSS ON DISPOSAL OF CONSOLIDATED SUBSIDIARIES. In 2001, loss on disposal of consolidated subsidiaries was zero as compared to $1.0 million in 2000. In the fourth quarter of 2000, we recorded $1.0 million in write-offs of early stage investments.

OTHER INCOME (EXPENSE), NET. In 2001, other income, net (primarily comprised of interest income, realized and unrealized gains and losses on trading securities, equity in losses of affiliates and other) was $4.2 million as compared to $1.2 million in net other expense in 2000.

INTEREST INCOME. In 2001, interest income was $3.8 million as compared to $3.1 million in 2000. The increase in interest income during 2001 was due to higher cash balances during 2001 as compared to 2000, resulting from various private equity financings and the receipt of significant license fee payments by Soundview Technologies during the year. The increase in interest income for 2001 was partially offset by the impact of a decrease in interest rates on our short-term investments related to sharp interest rate cuts by the Federal Open Market Committee and other external economic factors negatively impacting rates of return on short-term investments occurring during the third and fourth quarters of 2001.

REALIZED GAINS ON SHORT-TERM INVESTMENTS. In 2001, net realized gains on short-term investments was $0.4 million as compared to no realized gains on short-term investments in 2000. The increase in realized gains on short-term investments during 2001 was due to realized gains recorded on our short-term investments classified as trading securities during 2001.

UNREALIZED GAINS ON SHORT-TERM INVESTMENTS. In 2001, net unrealized gains were $0.2 million as compared to no unrealized gains in 2000. The increase is due to our investment in equity securities during 2001 classified as trading securities under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS No. 115"). Pursuant to SFAS No. 115, unrealized gains and losses on trading securities are recorded in the consolidated statement of operations. In 2000, all of our short-term investments were classified as available-for-sale, and pursuant to SFAS No. 115, unrealized gains and losses were recorded as a separate component of comprehensive income (loss) in stockholders' equity until realized.

EQUITY IN LOSSES OF AFFILIATES. In 2001, equity in losses of affiliates was $0.2 million as compared to $1.7 million in 2000. Losses during 2001 were comprised of a loss of $0.2 million for our investment in Acacia Media Technologies, as determined by the equity method of accounting through November 1, 2001. We increased our ownership percentage in Acacia Media Technologies to 100% on November 1, 2001. Losses during 2000 were comprised of a loss of $0.3 million for our investment in Signature-mail.com, a loss of $0.2 million for our investment in Acacia Media Technologies, a loss of $0.1 million for our investment in Whitewing Labs and a loss of $1.1 for our investment in Mediaconnex, as determined by the equity method of accounting. We wrote-off our equity investments in Signature-mail.com, Whitewing Labs Mediaconnex, as of December 31, 2000.

MINORITY INTERESTS. Minority interests in the losses of consolidated subsidiaries increased to $17.5 million in 2001 as compared to $9.2 million in 2000. The increase in minority interests in 2001 was primarily due to the increase in losses incurred by CombiMatrix as a result of increased non-cash stock compensation amortization charges, its continued expansion of research and development efforts and increased marketing, general and administrative expenses. The increase in 2001 minority interests resulting from CombiMatrix's increased losses was partially offset by minority interests in the income of Soundview Technologies from January through June 2001. We increased our ownership percentage in Soundview Technologies to 100% in June 2001.

PROVISION (BENEFIT) FOR INCOME TAXES. In 2001, the provision for income taxes was $0.8 million as compared to a benefit of $0.07 million in 2000. The increase in the provision for income taxes in 2001 was primarily due to a significant increase in taxable income generated by Soundview Technologies related to its patent infringement settlement and patent licensing activities as compared to the 2000 period.

DISCONTINUED OPERATIONS. On February 13, 2001, the board of directors of Soundbreak.com resolved to cease operations as of February 15, 2001 and liquidate the remaining assets and liabilities of the company. Accordingly, we reported the results of operations and the estimated loss on disposal of Soundbreak.com as results of discontinued operations in our 2000 consolidated statements of operations and comprehensive loss. Discontinued operations of Soundbreak.com included $7.4 million of loss from discontinued operations in 2000 and $2.1 million of accrued expenses in connection with its cessation of operations.

2000 COMPARED TO 1999

NET REVENUE. In 2000, net revenue was $0.06 million as compared to $0.3 million in 1999. The decrease in net revenues was primarily due to an increase of $0.04 million in advertising revenues, offset by a decrease of $0.1 million in CombiMatrix revenue from federal grants, and a decrease of $0.1 million in capital management fees due to the closure in 1999 of Acacia Research Capital Management division, which was the general partner in two domestic private investment partnerships and an investment advisor to two offshore private investment corporations. During 2000, grant revenue was $0.02 million as compared to $0.1 million in grant revenue during 1999. The grant revenue resulted from CombiMatrix's award of two grants in July 1999 for Phase I SBIR from the Department of Energy and the Department of Defense and a Phase II SBIR Department of Defense contract for the use of its biochip technology to develop nanode array sensor microchips in January 2000. No capital management fee income, which includes performance fee income, was earned during 2000 compared to $0.1 million during 1999 due to the closure of the Acacia Research Capital Management division on December 31, 1999. Costs associated with exiting this business were not material.

RESEARCH AND DEVELOPMENT EXPENSES. We incurred research and development expenses of $11.9 million in 2000 as compared to $1.8 million in 1999. Research and development expenses for 2000 are comprised of costs primarily incurred by CombiMatrix, which increased to $9.3 million from $2.4 million in 1999. This increase was due to an increase in the number of CombiMatrix personnel and larger laboratory facilities to accommodate the expansion of its research and development efforts focused on developing and improving microarray synthesis techniques. In addition, $2.5 million of acquired in-process research and development expense was charged to income related to our acquisition of an additional ownership position from existing CombiMatrix stockholders in July 2000.

In 2000, research and development expenses for non-cash stock compensation (including warrants), all of which related to CombiMatrix, totaled $3.4 million. In 1999, research and development expenses for non-cash stock compensation were not material.

MARKETING, GENERAL AND ADMINISTRATIVE EXPENSES. We incurred marketing, general and administrative expenses of $22.1 million in 2000, compared to expenses of $4.4 million in 1999. The increase in marketing, general and administrative expenses in 2000 was primarily due to general expansion of our operations, including an increase in business development expenses as we explored new business opportunities, the extensive use of consultants to assist in solving specialized issues or providing specific services, an increase in facilities costs due to the expansion of our office facilities and increased personnel and payroll expenses. In 2000, CombiMatrix relocated from Burlingame, California to Mukilteo, Washington. This relocation was completed during the third quarter, and related costs of $0.8 million were incurred in 2000 in connection with the relocation.

Marketing, general and administrative expenses included $7.3 million ($6.5 million related to CombiMatrix) and $0.2 million of non-cash stock compensation charges for 2000 and 1999, respectively.

AMORTIZATION OF PATENTS AND GOODWILL. In 2000, amortization expenses relating to patents and goodwill were $2.3 million as compared to $1.6 million in 1999. As a result of our purchase of additional equity interests in Soundview Technologies in July 1997 and January 1998, in MerkWerks in January 1998 and June 1999 and in CombiMatrix in July 2000, we are incurring increased amortization expenses each quarter for periods ranging from three to five years relating to the intangible assets acquired.

LOSS ON DISPOSAL OF CONSOLIDATED SUBSIDIARIES. In 2000, loss on disposal of consolidated subsidiaries was $1.0 million as compared to zero in 1999. In the fourth quarter of 2000, we recorded $1.0 million in write-offs of early stage investments.

OTHER EXPENSE, NET. In 2000, other expense, net (primarily comprised of interest income, write-off of equity investments, equity in losses of affiliates and other) totaled $1.2 million as compared to other expense, net of $1.0

million in 1999. The increase in other expense, net in 2000 was primarily due to $2.6 million of write-offs of equity investments in Signaturemail.com, Whitewing Labs and Mediaconnex, and an increase in equity in losses of affiliates, partially offset by an increase in interest income in 2000.

INTEREST INCOME. In 2000, interest income was $3.1 million as compared $0.3 million in 1999. The increase was due to higher cash balances in 2000 as compared to 1999. We received $64.5 million in cash from outside investors in connection with our warrant call and private equity financings for Acacia and CombiMatrix in 2000.

INTEREST EXPENSE. In 2000, we reported no interest expense as compared to $0.3 million in 1999. The expense incurred in 1999 was primarily attributable to CombiMatrix and relates to three-year 6% unsecured subordinated promissory notes issued by CombiMatrix in a private offering completed in March 1998. Warrants to purchase CombiMatrix common stock were also issued in this private placement. During the fourth quarter of 1999, CombiMatrix offered holders of the unsecured subordinated notes the opportunity to convert their outstanding principal balance into CombiMatrix common stock and all noteholders had converted as of December 1999.

EQUITY IN LOSSES OF AFFILIATES. In 2000, equity in losses of affiliates was $1.7 million as compared to $1.1 million in 1999. In 2000, losses were primarily attributable to a loss of $1.1 million for our investment in Mediaconnex. This amount was offset by a decrease in the recognized losses for Whitewing Labs, Acacia Media Technologies and Signature-mail.com totaling $0.6 million in 2000 as compared to $1.1 million in 1999.

MINORITY INTERESTS. In 2000, minority interests in the losses of consolidated subsidiaries was $9.2 million as compared to $1.2 million in 1999. The increase in minority interests in 2000 was primarily due to the increase in losses incurred by CombiMatrix as a result of its continued expansion of research and development efforts, an increase in non-cash stock compensation charges and increased marketing, general and administrative expenses.

DISCONTINUED OPERATIONS. On February 13, 2001, the board of directors of Soundbreak.com resolved to cease operations as of February 15, 2001 and liquidate the remaining assets and liabilities of the company. Accordingly, we reported the results of operations and the estimated loss on disposal of Soundbreak.com as results of discontinued operations in the consolidated statements of operations and comprehensive loss in 2000. Discontinued operations of Soundbreak.com included $7.4 million of loss from discontinued operations in 2000 and $2.1 million of accrued expenses to be incurred in connection with its cessation of operations. Operating results in 1999 were restated to present Soundbreak.com as discontinued operations resulting in a loss from discontinued operations of $0.8 million in 1999.

INFLATION

Inflation has not had a significant impact on Acacia.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2001, we had cash and short-term investments of $84.6 million on a consolidated basis, including discontinued operations, of which Acacia Research Corporation had $44.2 million. Working capital was $72.4 million on a consolidated basis at December 31, 2001. Highlights of the financing and commitment activities for the year ended December 31, 2001 include the following:

- In January 2001, we completed an institutional private equity financing raising gross proceeds of $19.0 million through the issuance of 1,107,274 units. Each unit consists of one share of our common stock and one three-year callable common stock purchase warrant. Each common stock purchase warrant entitles the holder to purchase 1.10 shares of our common stock at a price of $19.09 per share and is callable by us once the closing bid price of our common stock averages $23.86 or above for 20 or more consecutive trading days on the NASDAQ National Market System. We issued an additional 20,000 units in lieu of cash payments for finders' fees in conjunction with the private placement.

- In May 2001, Advanced Material Sciences completed a private equity financing raising gross proceeds of $2.0 million through the issuance of 2,000,000 shares of common stock. Advanced Material Sciences issued an additional 29,750 shares of common stock, in lieu of cash payments, and warrants to purchase approximately 54,000 shares of common stock, for finders' fees in connection with the private placement. Each common stock purchase warrant entitles the holder to purchase shares of Advanced Material Sciences common stock at a price of $1.10 per share.

- In September 2001, CombiMatrix entered into a sale and leaseback arrangement with a bank, providing up to $7.0 million in financing for equipment and other capital purchases. Pursuant to the terms of the

agreement, certain equipment and leasehold improvements, totaling $2.6 million in net book value, were sold to the bank at a purchase price of $3.0 million resulting in a deferred gain on the sale of assets of $0.4 million. In addition, CombiMatrix entered into a capital lease arrangement to lease the fixed assets from the bank. The capital lease agreement provides CombiMatrix with the option to purchase the equipment for a nominal amount at the end of the lease term, which expires in September 2004.

- In October 2001, CombiMatrix formed a joint venture with Marubeni Japan, one of Japan's leading trading companies. The joint venture, based in Tokyo, will focus on development and licensing opportunities for CombiMatrix's biochip technology with pharmaceutical and biotechnology companies in the Japanese market. Marubeni made an investment of $1.0 million to acquire a ten percent (10%) minority interest in the joint venture.

Net cash used in continuing operating activities was $10.4 million in 2001. Cash used for continuing operations is primarily due to a loss from continuing operations of $22.3 million, increased by minority interests of $17.5 million and the purchase of trading securities of $4.1 million, partially offset by non-cash expenses including depreciation, amortization and compensation expense relating to stock options and warrants in the amount of $24.7 million, and license fee, up-front and milestone payments received and recorded as deferred revenues at December 31, 2001 totaling $7.5 million. In 2001, we had an additional $2.2 million of net cash used in operating activities of discontinued operations.

Our net cash provided by investing activities of continuing operations was $13.0 million in 2001. Significant investing activities include a net sale of short-term investments classified as available-for-sale of $19.6 million, net of purchases of common stock from minority stockholders of subsidiaries totaling $2.6 million and purchases of additional equity in consolidated subsidiaries totaling $3.3 million. We had an additional $0.2 million used in investing activities of discontinued operations.

Our net cash provided by financing activities was $23.2 million in 2001. Cash provided by financing activities in 2001 was primarily due to $18.3 million of net proceeds from an institutional private equity financing in January 2001, capital contributions from minority stockholders of subsidiaries totaling $3.3 million and proceeds from the exercise of stock options and warrants totaling $1.8 million.

Warrants issued by us in connection with our private placement completed in January 2001 contain call and redemption provisions should the closing bid price of our common stock exceed $23.86 per share for 20 or more consecutive trading days. The exercise price per share for the common stock underlying the warrants is $19.09. In the event the requirements to call the warrants are satisfied, we may call such warrants and we expect most, if not all, of the holders to exercise such warrants in response. There can be no assurance that the closing bid price of our common stock will exceed all such thresholds or that, if it does, we will decide to call the warrants.

We have sustained losses since our inception contributing to an accumulated deficit of $100.0 million on a consolidated basis, which includes operating losses of $43.2 million and $37.2 million in 2001 and 2000, respectively. The consolidated accumulated deficit of $100.0 million also includes an increase related to a reclassification of accumulated deficit in the amount of $21.7 million to permanent capital representing the fair value of the ten percent (10%) stock dividend distributed to stockholders in 2001. There can be no assurance that we will become profitable. If we do, we may never be able to sustain profitability. We expect to incur significant losses for the foreseeable future. We are making efforts to reduce expenses and may take steps to raise additional capital.

Generally, our subsidiary companies have relied primarily upon selling equity securities, including sales to and loans from us, to generate the funds needed to finance implementation of their plans of operations. In 2001, we began to receive significant payments from our media technology licensing arrangements and from our life sciences strategic partners and licensees. However, we may be required to obtain additional financing through bank borrowings, debt or equity financings or otherwise, which would require us to make additional investments or face a dilution of our equity interests.

We have no significant commitments for capital expenditures in 2001. Our minimum rental commitments on operating leases related to continuing operations total $8.6 million through December 2006. We have no committed lines of credit or other significant committed funding. However, we anticipate that existing working capital reserves will provide sufficient funds for our operating expenses for at least the next twelve months in the absence of making any major new investments. We intend to seek additional financing to fund new or existing businesses.

There can be no assurances that we will not encounter unforeseen difficulties that may deplete our capital resources more rapidly than anticipated. Any efforts to seek additional funding could be made through

equity, debt or other external financing and there can be no assurance that additional funding will be available on favorable terms, if at all. Such financing transactions may be dilutive to existing investors. If we fail to obtain additional funding when needed, we may not be able to execute our business plans and our business may suffer.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 2001, the FASB issued SFAS No. 141, "Business Combinations" ("SFAS No. 141"), and SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"). SFAS No. 141 requires that the purchase method be used for all business combinations initiated after June 30, 2001 and that certain intangible assets acquired in a business combination be recognized apart from goodwill. We believe that the adoption of SFAS No. 141 will not have a material effect on our consolidated results of operations or financial position.

SFAS No. 142 requires goodwill to be tested for impairment under certain circumstances, and written off when determined to be impaired, rather than being amortized as previous standards required. We will adopt SFAS No. 142 effective January 1, 2002. We have recorded approximately $1.1 million of goodwill amortization during 2001. As a result of SFAS No. 142, we will no longer amortize goodwill. In lieu of amortization, we are required to perform an initial impairment review of our goodwill in 2002 and an annual impairment review thereafter. We expect to complete our initial review during the first quarter of 2002. We currently do not expect to record an impairment charge upon completion of the initial impairment review. However, there can be no assurance that at the time the review is completed a material impairment charge will not be recorded.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144"), which addresses financial accounting and reporting for the impairment of long-lived assets and for long-lived assets to be disposed of. SFAS No. 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." SFAS No. 144 also supersedes the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," for segments of a business to be disposed of. SFAS No. 144 also amends ARB No. 51, "Consolidated Financial Statements," to eliminate the exception to consolidation for a temporarily controlled subsidiary. SFAS No. 144 requires long-lived assets to be tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. In conjunction with such tests, it may be necessary to review depreciation estimates and methods as required by APB No. 20, "Accounting Changes," or the amortization period as required by SFAS No. 142. We will adopt SFAS No. 144 effective January 1, 2002. We are currently assessing the impact of SFAS No. 144 on our operating results and financial condition upon adoption.

CHANGE IN ACCOUNTING POLICY

Effective January 1, 2001, we changed our accounting policy for balance sheet classification of employee stock-based compensation resulting from awards in consolidated subsidiaries. Historically, the consolidated financial statements have accounted for cumulative earned employee stock-based compensation related to subsidiaries as a liability, under the caption "accrued stock compensation." Management believes a change to reflect these cumulative charges as minority interests is preferable as it better reflects the underlying economics of the stock-based compensation transaction. As a result of the change, effective January 1, 2001, minority interests has been increased by $10.4 million, and accrued stock compensation of $10.4 million has been decreased. The change in accounting policy does not affect previously reported consolidated net income.

RISK FACTORS

BECAUSE OUR BUSINESS OPERATIONS ARE SUBJECT TO MANY INHERENT AND UNCONTROLLABLE RISKS, WE MAY NOT SUCCEED.

We have significant economic interests in our subsidiary companies. Our business operations are subject to numerous risks, challenges, expenses and uncertainties inherent in the establishment of new business enterprises. Many of these risks and challenges are subject to outside influences over which we have no control, including:

- our subsidiary companies' products and services face uncertain market acceptance;
- technological advances may make our subsidiary companies' products and services obsolete or less competitive;
- competition;
- increases in operating costs, including costs for supplies, personnel and equipment;
- the availability and cost of capital;
- general economic conditions; and
- governmental regulation that excessively restricts our subsidiary companies' businesses.

We cannot assure you that our subsidiary companies will be able to market any product or service on a commercial scale, that our subsidiary companies will ever achieve or maintain profitable operations or that they, or we, will be able to remain in business.

BECAUSE OF THE RISKS INHERENT IN INVESTING IN EMERGING COMPANIES, INCLUDING THE LACK OF OPERATING HISTORIES AND UNPROVEN TECHNOLOGIES AND PRODUCTS, WE MAY INCUR SUBSTANTIAL LOSSES.

Investing in emerging companies carries a high degree of risk, including difficulties in selecting ventures with viable business plans and acceptable likelihoods of success and future profitability. There is a high probability of loss associated with investments in emerging companies. We must also dedicate significant amounts of financial resources, management attention and personnel to identify and develop each new business opportunity without any assurance that these expenditures will prove fruitful.

We generally invest in start-up ventures with no operating histories, unproven technologies and products and, in some cases, without experienced management. We may not be successful in developing these start-up ventures. Because of the uncertainties and risks associated with such start-up ventures, we could experience substantial losses associated with failed ventures.

In addition, the market for venture capital in the United States is increasingly competitive. As a result, we may lose business opportunities and may need to accept financing and equity investments on less favorable terms. Also, we may be unable to participate in additional ventures because we lack the financial resources to provide them with full funding. We, as well as our subsidiary companies, may need to depend on external financing to provide sufficient capital.

WE HAVE A HISTORY OF LOSSES AND EXPECT TO INCUR ADDITIONAL LOSSES IN THE FUTURE.

We have sustained substantial losses since our inception resulting in an accumulated deficit of $100.0 million (including a reclassification of accumulated deficit in the amount of $21.7 million to permanent capital representing the fair value of the ten percent (10%) stock dividend paid in 2001) on a consolidated basis, including operating losses of $43.2 million and $37.2 million in 2001 and 2000, respectively. We may never become profitable or if we do, we may never be able to sustain profitability. We expect to incur significant research and development, marketing, general and administrative expenses. As a result, we expect to incur significant losses for the foreseeable future.

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

Our common stock, which is quoted on the NASDAQ National Market System, has experienced significant price and volume fluctuations. Additionally, the stock market generally, and the stock prices of technology companies, specifically, have been very volatile. The market price of our common stock may fluctuate significantly in response to a number of factors beyond our control, including:

- changes in financial estimates by securities analysts;
- our failure to meet the expectations of securities analysts;
- announcements by us, our customers, our subsidiaries or our competitors;
- changes in market valuations of similar companies;
- changes in accounting rules and regulations; and
- future sales of our common stock by our existing stockholders.

BECAUSE OUR OPERATING RESULTS HAVE FLUCTUATED SIGNIFICANTLY AND MAY CONTINUE TO DO SO IN THE FUTURE, OUR STOCK PRICE MAY BE VERY VOLATILE.

Our operating results may vary significantly from quarter to quarter due to a variety of factors, including:

- the operating results of our current and future subsidiary companies;
- the nature and timing of our investments in new subsidiary companies;
- our decisions to acquire or divest interests in our current and future subsidiaries, which may create changes in losses or income and amortization of goodwill;
- changes in our methods of accounting for our current and future subsidiaries, which may cause us to recognize gains or losses under applicable accounting rules;
- the timing of the sales of equity interests in our current and future subsidiary companies;
- our ability to effectively manage our growth and the growth of our subsidiary companies;
- general economic conditions; and
- the cost of future acquisitions, which may increase due to intense competition from other potential acquirers of technology-related companies or ideas.

We have incurred and expect to continue to incur significant expenses in pursuing and developing new business ventures. To date, we have lacked a consistent source of recurring revenue. Each of the factors we have described may cause our stock to be more volatile than the stock of other companies.

BECAUSE OUR SUBSIDIARY COMPANIES MAY NOT GENERATE ANY REVENUES, AND OPERATING RESULTS FROM OUR SUBSIDIARY COMPANIES MAY FLUCTUATE SIGNIFICANTLY, OUR OWN OPERATING RESULTS MAY BE NEGATIVELY AFFECTED.

Our operating results may be materially impacted by the operating results of our subsidiary companies. We cannot assure that these companies will be able to meet their anticipated working capital needs to develop their products and services. If they fail to properly develop these products and services, they will be unable to generate meaningful product sales. We anticipate that our operating results are likely to vary significantly as a result of a number of factors, including:

- the timing of new product introductions by each subsidiary company;
- the stage of development of the business of each subsidiary company;
- the technical feasibility of each subsidiary company's technologies and techniques;
- the novelty of the technology owned by our subsidiary companies;
- the accuracy, effectiveness and reliability of products developed by our subsidiary companies;
- the level of product acceptance;
- the strength of each subsidiary company's intellectual property rights;
- the ability of each subsidiary company to avoid infringing the intellectual property rights of others;
- each subsidiary company's ability to exploit and commercialize its technology;
- the volume and timing of orders received and product line maturation;
- the impact of price competition; and
- each subsidiary company's ability to access distribution channels.

Many of these factors are beyond our subsidiary companies' control. We cannot provide any assurance that any subsidiary company will experience growth in the future or be profitable on an operating basis in any future period.

A LACK OF MARKET ACCEPTANCE OF OUR SUBSIDIARY COMPANIES' PRODUCTS WILL RESULT IN OPERATING LOSSES.

Each of our subsidiary companies is developing new technologies and products, as further detailed below. To the extent any of these technologies and products are not accepted by their respective markets, we will incur operating losses.

ADVANCED MATERIAL SCIENCES. Although Advanced Material Sciences holds the exclusive license for CombiMatrix's biological array processor technology in certain fields of material sciences, it is a developmental-stage company without any significant revenues.

COMBIMATRIX. CombiMatrix is developing a proprietary biochip microarray processor system that integrates semiconductor technology with new developments in biotechnology and chemistry. Although CombiMatrix has been awarded three research grants sponsored by different U.S. governmental agencies, CombiMatrix is a developmental-stage company without any significant current revenues. Its current activities relate almost exclusively to research and development. CombiMatrix must conduct additional testing before any of its products will be ready for sale. Because the technologies critical to the success of this industry are in their infancy, we cannot assure you that CombiMatrix will be able to successfully implement its technologies. If its technologies are successful, CombiMatrix intends to pursue collaborations with pharmaceutical companies for activities such as screening potential drug compounds. We cannot assure you that CombiMatrix, even if successful in developing its technologies, would be able to successfully implement collaborative efforts with pharmaceutical companies and create commercially successful products. Even if CombiMatrix develops commercially viable products, it has no experience manufacturing, marketing, pricing or selling products in the volumes that would be required for commercial success. This inexperience could hinder CombiMatrix's ability to profit from any viable products it may develop.

SOUNDVIEW TECHNOLOGIES. Soundview Technologies was formed to commercialize patent rights of a method of video and audio blanking technology, also known as V-chip technology, that screens objectionable television programming and blocks it from the viewer. Although Soundview Technologies has licensed its technology to certain television manufacturers, we cannot assure you that it will continue to be profitable.

ACACIA MEDIA TECHNOLOGIES (FORMERLY KNOWN AS GREENWICH INFORMATION TECHNOLOGIES LLC). Acacia Media Technologies owns a worldwide portfolio of pioneering patents relating to audio and video transmission and receiving systems, commonly known as audio-on-demand and video-on-demand, used for distributing content via various methods including computer networks, cable television systems and direct broadcasting satellite systems The market for information-on-demand systems has only recently begun to develop and is rapidly evolving. Demand and market acceptance for information-on-demand systems are subject to substantial uncertainty and risk. We cannot predict whether, or how fast, this market will grow or how long it can be sustained. To date, Acacia Media Technologies has yet to license any of its technology. It is uncertain if and to what extent Acacia Media Technologies will be able to profitably market and license its rights to the information-on-demand technology.

THE EXPANSION OF COMBIMATRIX'S PRODUCT LINES MAY SUBJECT IT TO REGULATION BY THE FDA AND FOREIGN REGULATORY AUTHORITIES, WHICH COULD PREVENT OR DELAY THE INTRODUCTION OF NEW PRODUCTS.

If CombiMatrix manufactures, markets or sells any products for any regulated clinical or diagnostic applications, those products will be subject to extensive governmental regulation as medical devices in by the FDA and in other countries by corresponding foreign regulatory authorities. The process of obtaining and maintaining required regulatory clearances and approvals is lengthy, expensive and uncertain. Products that CombiMatrix manufactures, markets or sells for research purposes only are not subject to governmental regulations as medical devices or as analyte specific reagents to aid in disease diagnosis. We believe that CombiMatrix's success will depend upon commercial sales of improved versions of products, certain of which cannot be marketed in the United States and other regulated markets unless and until CombiMatrix obtains clearance or approval from the FDA and its foreign counterparts, as the case may be. There can be no assurance that these approvals will be received on a timely basis, or at all, and delays or failures in receiving these approvals may limit our ability to benefit from new CombiMatrix products.

ETHICAL, SOCIAL, POLITICAL AND LEGAL ISSUES CONCERNING GENOMIC RESEARCH AND TESTING MAY RESULT IN REGULATIONS RESTRICTING THE USE OF COMBIMATRIX'S TECHNOLOGY OR REDUCE DEMAND FOR ITS PRODUCTS.

In the case that CombiMatrix or its customers manufacture, market or sell a regulated diagnostic product, ethical, social and legal concerns about genomic testing and genomic research could result in regulations restricting CombiMatrix's or its customers' activities. For example, the potential availability of testing for genetic predispositions has raised issues regarding the use and confidentiality of information obtained from this testing. Some states in the United States have enacted legislation restricting the use of information derived from genomic testing, and the United States Congress and some foreign governments are considering similar legislation. Restrictions on CombiMatrix or its customers could result in a reduction of sales, if any, and harm our financial results.

AS COMBIMATRIX'S OPERATIONS EXPAND, ITS COSTS TO COMPLY WITH ENVIRONMENTAL LAWS AND REGULATIONS WILL INCREASE; FAILURE TO COMPLY WITH THESE LAWS AND REGULATIONS COULD EXPOSE COMBIMATRIX TO SUBSTANTIAL LIABILITIES AND HARM OUR FINANCIAL RESULTS.

CombiMatrix's operations involve the use, transportation, storage and disposal of hazardous substances, and as a result, it is subject to environmental and health and safety laws and regulations. As CombiMatrix expands its operations, its use of hazardous substances will increase and lead to additional and more stringent requirements. The cost to comply with these and any future environmental and health and safety regulations could be substantial. In addition, CombiMatrix's failure to comply with laws and regulations, and any releases of hazardous substances by it into the environment, or at disposal sites used by it, could expose CombiMatrix to substantial liability in the form of fines, penalties, remediation costs and other damages, or could lead to a curtailment or shut down of CombiMatrix's operations. These types of events, if they occur, would adversely impact our financial results.

COMBIMATRIX MAY BE EXPOSED TO LIABILITY DUE TO PRODUCT DEFECTS.

If CombiMatrix commences testing, manufacturing and selling of regulated diagnostic products, it will be exposed to potential product liability claims inherent in such activities. When desirable, CombiMatrix intends to acquire additional insurance for clinical liability risks. CombiMatrix may not be able to obtain such insurance or general product liability insurance on acceptable terms or at reasonable costs. In addition, such insurance may not provide sufficient amounts of coverage for all potential liabilities. A product liability claim or recall could materially and adversely affect CombiMatrix's business, financial condition and results of operations.

BECAUSE EACH SUBSIDIARY COMPANY'S SUCCESS GREATLY DEPENDS ON ITS ABILITY TO DEVELOP AND MARKET NEW PRODUCTS AND SERVICES AND TO RESPOND TO THE RAPID CHANGES IN TECHNOLOGY AND DISTRIBUTION CHANNELS, WE CANNOT ASSURE YOU THAT OUR SUBSIDIARY COMPANIES WILL BE SUCCESSFUL IN THE FUTURE.

The markets for each subsidiary company's products are marked by extensive competition, rapidly changing technology, frequent product and service improvements and evolving industry standards. We cannot assure you that the existing or future products and services of our subsidiary companies will be successful or profitable. We also cannot assure you that competitors' products, services or technologies will not render our subsidiary companies' products and services non-competitive or obsolete.

Our success will depend on our subsidiary companies' ability to adapt to this rapidly evolving marketplace and to develop and market new products and services or enhance existing ones to meet changing customer demands. Our subsidiary companies may be unable to adequately adapt products and services or acquire new products and services that can compete successfully. In addition, our subsidiary companies may be unable to establish and maintain distribution channels.

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

As of December 31, 2001, we had cash and short-term investments of $84.6 million on our consolidated financial statements. However, portions of these funds were held by certain of our consolidated subsidiaries and thus are restricted to their individual use.

To date, our subsidiary companies have relied primarily upon selling equity securities, including sales to and loans from us, to generate the funds needed to finance implementing their plans of operations. Our subsidiary companies may be required to obtain additional financing through bank borrowings, debt or equity financings or otherwise, which would require us to make additional investments or face a dilution of our equity interests.

We cannot assure that we will not encounter unforeseen difficulties that may deplete our capital resources more rapidly than anticipated. Any efforts to seek additional funds could be made through equity, debt or other external financings. However, we cannot assure that additional funding will be available on favorable terms, if at all. If we fail to obtain additional funding when needed for our subsidiary companies and ourselves, we may not be able to execute our business plans and our business may suffer.

OUR BUSINESS MAY BE HARMED IF MARKET AND OTHER CONDITIONS ADVERSELY AFFECT OUR ABILITY TO DISPOSE OF CERTAIN ASSETS AT FAVORABLE PRICES.

An element of our business plan involves disposing of, in public offerings or private transactions, our subsidiary companies and future partner companies, or portions of assets thereof, to the extent such assets are no longer consistent with our business plan. If we sell any such subsidiary companies or assets, the price we receive will depend upon market and other conditions. Therefore, we may not be able to sell at favorable prices. Market and other conditions beyond our control affect:

- our ability to effect these sales;
- the timing of these sales; and
- the amount of proceeds from these sales.

In some instances, we may not be able to sell some or any of these assets due to poor market and other conditions. As a result, we may be adversely affected because we will be unable to dispose of assets or may receive a lesser amount for our assets than we believe is favorable.

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 significant strain on our managerial, operational and financial resources. Further, as the number of our subsidiary companies and their respective businesses grow, we will be required to manage multiple relationships. Any further growth by us or our subsidiary companies or an increase in the number of our strategic relationships will increase this strain on our managerial, operational and financial resources. This strain may inhibit our ability to achieve the rapid execution necessary to successfully implement our business plan. In addition, our future success depends on our ability to expand our organization to match the growth of our business and our subsidiaries.

OUR FUTURE SUCCESS DEPENDS IN PART ON THE CONTINUED SERVICE OF OUR KEY EXECUTIVES, AND THE LOSS OF ANY OF THESE KEY EXECUTIVES COULD ADVERSELY AFFECT OUR BUSINESS AND OPERATING RESULTS.

Our success depends in part upon the continued service of our executive officers, particularly Paul R. Ryan, our Chairman and Chief Executive Officer and Robert L. Harris, II, our President. Neither Mr. Ryan nor Mr. Harris has an employment or non-competition agreement with us. The loss of either of these key individuals would be detrimental to our ongoing operations and prospects.

OUR FUTURE SUCCESS AND THE SUCCESS OF OUR SUBSIDIARY COMPANIES DEPENDS ON OUR AND THEIR ABILITIES TO ATTRACT AND RETAIN QUALIFIED TECHNICAL PERSONNEL AND QUALIFIED MANAGEMENT AND MARKETING TEAMS. FAILURE TO DO SO WOULD HARM OUR ONGOING OPERATIONS AND BUSINESS PROSPECTS.

We believe that our success will depend on continued employment by us and our subsidiary companies of senior management and key technical personnel. Our subsidiary companies will need to attract, retain and motivate qualified management personnel to execute their current business plans and to successfully develop commercially viable products and services. Competition for qualified personnel is intense and we cannot assure you that we will successfully retain our existing key employees or attract and retain any additional personnel we may require.

Each of our subsidiary companies has key executives upon whom we significantly depend, and the success of those subsidiary companies depends on their ability to retain and motivate those individuals.

OUR SUBSIDIARY COMPANIES FACE INTENSE COMPETITION, OFTEN AGAINST COMPETITORS WITH LONGER HISTORIES, GREATER NAME RECOGNITION AND MORE EXPERIENCE IN RESEARCH AND DEVELOPMENT. OUR FAILURE TO COMPETE EFFECTIVELY COULD HARM OUR BUSINESS.

Each of our subsidiary companies faces intense competition. Many of the competitors to our subsidiary companies have greater financial, marketing and other resources. In addition, a number of competitors may have greater brand recognition and longer operating histories than our subsidiary companies. Our subsidiary companies' individual risks are regarding competition further described below.

ADVANCED MATERIAL SCIENCES. The material sciences industry is subject to intense competition and rapid change. Many competitors have more experience in research and development than Advanced Material Sciences.

COMBIMATRIX. The pharmaceutical and biotechnology industries are subject to intense competition and rapid and significant technological change. CombiMatrix anticipates that it will face increased competition in the future as new companies enter the market and advanced technologies become available. Many of these competitors have more experience in research and development than CombiMatrix. Technological advances or entirely different approaches developed by one or more of CombiMatrix's competitors could render CombiMatrix's processes obsolete or uneconomical. The existing approaches of CombiMatrix's competitors or new approaches or technology developed by CombiMatrix's competitors may be more effective than those developed by CombiMatrix.

SOUNDVIEW TECHNOLOGIES. Other companies may develop competing technologies that offer better or less expensive alternatives to the V-chip offered by Soundview Technologies. Many potential competitors, including television manufacturers, have significantly greater resources. In addition, the outcome of Soundview Technologies' pending litigation against television manufacturers is uncertain.

ACACIA MEDIA TECHNOLOGIES. Other companies may develop competing technologies that offer better or less expensive alternatives to the information-on-demand technology offered by Acacia Media Technologies. In the event a competing technology emerges, Acacia Media Technologies would expect substantial competition.

WE CANNOT ASSURE THAT WE WILL BE ABLE TO EFFECTIVELY PROTECT OUR SUBSIDIARY COMPANIES' PROPRIETARY TECHNOLOGY, AND WE COULD ALSO BE SUBJECT TO INFRINGEMENT CLAIMS.

The success of our subsidiary companies relies, to varying degrees, on proprietary rights and their protection or exclusivity. Although reasonable efforts will be taken to protect their proprietary rights, the complexity of international trade secret, copyright, trademark and patent law, and common law, coupled with limited resources and the demands of quick delivery of products and services to market, create risk that these efforts will prove inadequate. From time to time, we may be subject to third-party claims in the ordinary course of business, including claims of alleged infringement of proprietary rights by us and our subsidiary companies. Any such claims may damage our business by subjecting us and our subsidiary companies to significant liability for damage and invalidating proprietary rights, with or without merit, and could subject our subsidiary companies to costly litigation and the diversion of their technical and management personnel. In the event of any adverse ruling in any intellectual property litigation, we could be required to:

- pay substantial damages;
- cease the manufacturing, use and sale of certain products;
- discontinue the use of certain process technologies; and
- obtain a license from a third-party claiming infringement, which might not be available on reasonable terms, if at all.

Advanced Material Sciences, CombiMatrix, Acacia Media Technologies and Soundview Technologies depend largely on the protection of enforceable patent rights. Collectively, they have more than 45 applications pending with the U.S. Patent and Trademark Office and other major foreign country or region (e.g. Europe) patent offices, seeking protection for their core technologies and or related product applications and processes, and have 32 patents or rights to patents that have been issued or granted. We cannot assure you that the pending patent applications will be issued or granted, that third-parties will not infringe, or attempt to invalidate these intellectual property rights or that certain aspects of their intellectual property will not be engineered-around by third-parties without violating the patent rights of Advanced Material Sciences, CombiMatrix, Acacia Media Technologies or Soundview Technologies. For Acacia Media Technologies and Soundview Technologies, intellectual property constitutes their only significant assets.

Existing patents owned by our subsidiary companies and any future issued patents may not be sufficiently broad to prevent others from practicing our subsidiary companies' technologies or developing competitive technologies. In addition, others may oppose or invalidate our subsidiary companies' patents and those patents may fail to provide a competitive advantage. Enforcing our subsidiary companies' intellectual property rights may be difficult, costly and time consuming and ultimately may not be successful.

Many of our subsidiary companies also hold licenses from third-parties, and it is possible that they could become subject to infringement actions based upon such licenses. Our subsidiary companies generally obtain representations as to the origin and ownership of such licensed content. However, this may not adequately protect them.

Our subsidiary companies also enter into confidentiality agreements with third-parties and generally limit access to information relating to their proprietary rights. Despite these precautions, third-parties may be able to gain access to and use their proprietary rights to develop competing technologies and

products with similar or better features and prices. Any substantial unauthorized use of our subsidiary companies' proprietary rights could materially and adversely affect their business and operational results.

Since some genetic sequences are patented, CombiMatrix intends to secure indemnification from its customers in the case of any inadvertent synthesis of a patented genetic sequence in preparing its biological array processors. This indemnity will not protect CombiMatrix from being joined or held liable in any litigation involving a claim for misappropriation of unlicensed rights and will not protect CombiMatrix against awards of substantial damages if a customer is unwilling or unable to honor an indemnity obligation. In such an event, CombiMatrix would be required to devote substantial time to defending the litigation and might be required to expend substantial funds defending itself or in the satisfaction of damage awards if our customer refuses or is unable to honor its indemnity obligations. This could materially and adversely affect CombiMatrix's business and operational results.

PENDING LAWSUITS INVOLVING SOUNDVIEW TECHNOLOGIES AND COMBIMATRIX COULD ADVERSELY AFFECT THE BUSINESS, RESULTS OF OPERATIONS AND FINANCIAL CONDITIONS OF THOSE SUBSIDIARIES.

In 2000, Soundview Technologies filed a federal patent infringement and antitrust lawsuit against certain television manufacturers, the Consumer Electronics Manufacturers Association and the Electronics Industries Alliance d/b/a/ Consumer Electronics Association in the United States District Court for the Eastern District of Virginia, alleging that television sets utilizing certain content blocking technology (commonly known as the "V-chip") and sold in the United States infringe Soundview Technologies' Patent No. 4,554,584. The case is now pending in the U.S. District Court for the District of Connecticut against Sony Corporation of America, Inc., Sony Electronics, Inc., the Electronics Industries Alliance d/b/a/ Consumer Electronics Association, the Consumer Electronics Manufacturers Association, Mitsubishi Digital Electronics America, Inc., Mitsubishi Electronics America, Inc., Toshiba America Consumer Products, Inc. and Sharp Electronics Corporation. However, no assurance can be given that Soundview Technologies will prevail in this action or that the television manufacturers will be required to pay royalties to Soundview Technologies. If Soundview Technologies does not prevail in this litigation, its business, results of operations and financial condition would be materially adversely affected.

During 2001, Soundview Technologies entered into separate confidential settlement and/or license agreements with Hitachi America Ltd., Pioneer Electronics (USA) Incorporated, Samsung Electronics, LG Electronics, Inc., Daewoo Electronics Corporation of America, Sanyo Manufacturing Corporation, Funai Electric Co., Ltd., JVC Americas Corporation, Thomson Multimedia, Inc., Orion Electric Co., Ltd. and Matsushita Electric Industrial Co., Ltd. whereby Soundview Technologies will receive payments and grant non-exclusive licenses of its V-chip patent. In 2000, Soundview Technologies settled its lawsuit with Philips Electronics North America Corporation.

On November 28, 2000, Nanogen, Inc. ("Nanogen") filed a complaint against CombiMatrix and Donald D. Montgomery, Ph.D., a former employee of Nanogen and an officer and director of CombiMatrix, in the United States District Court for the Southern District of California. Nanogen alleges breach of contract, trade secret misappropriation and that U. S. Patent No. 6,093,302 and other proprietary information belonging to CombiMatrix are instead the property of Nanogen. CombiMatrix and Dr. Montgomery both deny, and intend to vigorously defend against, the claims in the lawsuit. Accordingly, on December 15, 2000, CombiMatrix and Dr. Montgomery filed a motion to dismiss the lawsuit, which was denied in part and granted in part on February 1, 2001. On March 9, 2001, CombiMatrix and Dr. Montgomery filed a counterclaim, alleging breach of express covenants not to sue or otherwise interfere with Dr. Montgomery arising out of a release signed by Nanogen in 1996. On April 4, 2001, Nanogen filed a motion to dismiss the counterclaim, which the court denied in its entirety on July 27, 2001. Fact discovery is ongoing and is scheduled to close on June 3, 2002. CombiMatrix intends to vigorously defend the lawsuit and pursue the counterclaim. Although we believe that Nanogen's claims are without merit, we cannot predict the outcome of the litigation. If Nanogen prevails in its lawsuit against CombiMatrix, CombiMatrix's business, results of operations and financial condition could be materially adversely affected.

BECAUSE WE HAVE A LIMITED OPERATING HISTORY, WE CANNOT ASSURE THAT OUR OPERATIONS WILL BE PROFITABLE.

We commenced operations in 1993 and, accordingly, have a limited operating history. In addition, many of our subsidiary companies are in the early stages of development and have limited operating histories. You should consider our prospects in light of the risks, expenses and difficulties frequently encountered by companies with such limited operating histories. Since we have a limited operating history, we cannot assure you that our operations will be profitable or that we will generate sufficient revenues to meet our expenditures and support our activities.

During the fiscal year ended December 31, 2001, we had an operating loss of approximately $43.2 million and a net loss of approximately $22.3 million. If we continue to incur operating losses, we may not have enough money to expand our business and our subsidiary companies' businesses in the future.

OUR LACK OF CONTROL OVER DECISION-MAKING AND DAY-TO-DAY OPERATIONS AT CERTAIN SUBSIDIARY COMPANIES MEANS THAT WE CANNOT PREVENT THEM FROM TAKING ACTIONS THAT WE BELIEVE MAY RESULT IN ADVERSE CONSEQUENCES.

We currently own a 4.9% interest in Advanced Data Exchange and have no board of director representation. Additional rounds of equity financing may further dilute our interest in Advanced Data Exchange. We do not have the ability to control decision-making at Advanced Data Exchange.

WE MAY INCUR SIGNIFICANT COSTS TO AVOID INVESTMENT COMPANY STATUS AND MAY SUFFER ADVERSE CONSEQUENCES IF DEEMED TO BE AN INVESTMENT COMPANY.

We may incur significant costs to avoid investment company status and may suffer other adverse consequences if deemed to be an investment company under the Investment Company Act. Some of our equity investments may constitute investment securities under the Investment Company Act. A company may be deemed to be an investment company if it owns investment securities with a value exceeding 40% of its total assets, subject to certain exclusions. Investment companies are subject to registration under, and compliance with, the Investment Company Act unless a particular exclusion or regulatory safe harbor applies. If we are deemed an investment company, we would become subject to the requirements of the Investment Company Act. As a consequence, we would be prohibited from engaging in business or issuing securities as we have in the past and might be subject to civil and criminal penalties for noncompliance. In addition, certain of our contracts might be voidable, and a court-appointed receiver could take control of us and liquidate our business.

Although we believe our investment securities currently comprise less than 40% of our assets, fluctuations in the value of these securities or of our other assets may cause this limit to be exceeded. This would require us to attempt to reduce our investment securities as a percentage of our total assets. This reduction can be attempted in a number of ways, including the disposition of investment securities and the acquisition of non-investment security assets. If we sell investment securities, we may sell them sooner than we otherwise would. These sales may be at depressed prices and we may never realize anticipated benefits from, or may incur losses on, these investments. Some investments may not be sold due to contractual or legal restrictions or the inability to locate a suitable buyer. Moreover, we may incur tax liabilities when we sell assets. We may also be unable to purchase additional investment securities that may be important to our operating strategy. If we decide to acquire non-investment security assets, we may not be able to identify and acquire suitable assets and businesses.

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

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

BECAUSE SOME OF OUR FACILITIES ARE LOCATED IN CALIFORNIA, WE COULD BE ADVERSELY AFFECTED BY ROLLING BLACKOUTS OR A MAJOR EARTHQUAKE.

Our facilities, excluding CombiMatrix, are primarily located in California. California experienced an energy shortage in 2001, and as a result, several cities were subject to rolling blackouts. In the event we experience rolling blackouts or other loss or reduction of electrical power, our operations could be adversely impacted.

Additionally, in the event of a major earthquake, our facilities could be significantly damaged or destroyed and result in a material adverse loss to us and some of our subsidiary companies. We have not obtained and do not presently intend to obtain earthquake insurance or business interruption coverage.

DELAWARE LAW AND OUR CHARTER DOCUMENTS CONTAIN PROVISIONS THAT COULD DISCOURAGE OR PREVENT A POTENTIAL TAKEOVER OF ACACIA 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 more difficult the acquisition of Acacia by means of a tender offer, proxy contest or otherwise, and the removal of incumbent officers and directors. These provisions include:

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

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

WE ARE AT RISK OF SECURITIES CLASS ACTION LITIGATION DUE TO STOCK PRICE VOLATILITY.

In the past, securities class action litigation has often been brought against a company following periods of volatility in the market price of its securities. Due to the potential volatility of our stock price, we may be the target of such litigation in the future. Securities litigation could result in substantial costs and divert management's attention and resources, which could seriously harm our business, financial condition and results of operations.

WE INTEND TO DIVIDE OUR COMMON STOCK INTO TWO NEW CLASSES AND TO ACQUIRE THE MINORITY STOCKHOLDER INTERESTS IN COMBIMATRIX.

On March 20, 2002, we announced our intention to divide our common stock into two new classes: one that would reflect the performance of our CombiMatrix subsidiary, and another that would reflect the performance of our media technologies business, including Soundview Technologies and Acacia Media Technologies. We also announced our intention to acquire the minority stockholder interests in CombiMatrix. Our operating results could be negatively affected by various factors related to the recapitalization and acquisition, including: difficulty obtaining or meeting conditions imposed for any necessary legal, governmental and administrative approvals for the transactions; costs related to the transactions; fluctuating stock market levels that could cause the new stock classes to be less than our current stock value; the failure of the stock market to ascribe value to our new business structure; and the failure of Acacia to realize anticipated benefits of these transactions.

WE MAY NOT COMPLETE THE RECAPITALIZATION OF OUR STOCK OR THE ACQUISITION OF THE MINORITY STOCKHOLDER INTERESTS IN COMBIMATRIX.

Both the recapitalization of our stock and the acquisition of the remaining minority interests in CombiMatrix are subject to several conditions, including the approval of our stockholders, receipt of satisfactory tax and accounting opinions, approval of the proposed merger by a special committee of the CombiMatrix board of directors, receipt of a fairness opinion, approval for listing of both of the new share classes on the NASDAQ National Market System and other customary conditions. As a result, there cannot be any assurance that recapitalization of our stock or the acquisition of the minority stockholder interests in CombiMatrix will be completed. If either event does not occur, we expect to continue to operate under our current operating structure. This would prevent us from realizing the possible benefits that the recapitalization and the acquisition would provide to us.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

SHORT-TERM INVESTMENTS

HIGH-GRADE CORPORATE BONDS, COMMERCIAL PAPER, U.S. GOVERNMENT SECURITIES AND MONEY MARKET ACCOUNTS. Our exposure to market risk is limited to interest income sensitivity, which is affected by changes in the general level of United States interest rates, particularly because a significant portion of our investments are in short-term debt securities issued by United States corporations and institutional money market funds. The primary objective of our investment activities is to preserve principal while at the same time maximizing the income it receives without significantly increasing risk. To minimize risk, we maintain a portfolio of cash, cash equivalents and short-term investments in a variety of investment-grade securities and with a variety of issuers, including corporate notes, commercial paper and money market funds. Due to the nature of our short-term investments, we believe that we are not subject to any material market risk exposure. We do not have any foreign currency or other derivative financial instruments.

MARKETABLE EQUITY SECURITIES. We conduct a portion of our investing activity through a limited partnership, of which a wholly-owned subsidiary of Acacia is the general partner. As a result of the significant control that we exercise over the limited partnership, the assets and liabilities and results of operations have been consolidated by us at December 31, 2001. We maintain an investment portfolio of common stock in several publicly held companies. These common stock investments are classified as trading securities and, consequently, are recorded on the balance sheet at their fair value, with unrealized gains and losses reported in the consolidated statement of operations. We are exposed to equity price risk on our portfolio of marketable equity securities. As of December 31, 2001, our total equity holdings in publicly traded companies were valued at $4.4 million compared to zero at December 31, 2000. We believe that it is reasonably possible that the fair values of these securities could experience significant fluctuations in the near term.

The following table represents the potential decrease in fair values of our marketable equity securities that are sensitive to changes in the stock market. Fair value deteriorations of minus 50%, 35% and 15% were selected based on the probability of their occurrence.

Potential decrease to the value of securities given X% decrease in each stock's price:

	(50%)	(35%)	(15%)	FAIR VALUE AS OF DECEMBER 31, 2001
Marketable equity securities.....	$ 2,186,000	$ 1,530,000	$ 656,000	$ 4,372,000

OTHER

We also hold a minority investment in a private company, Advanced Data Exchange. This investment is included in long-term assets and is carried at cost. We monitor our long-term minority investments in private companies for impairment and make appropriate reductions in carrying value when an other-than-temporary decline in fair value is determined to exist.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

The financial statements and related financial information required to be filed hereunder are indexed under Item 14 of this report and are incorporated herein by reference.

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

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this Item is incorporated by reference from the information under the captions entitled "Election of Directors-Nominees," "Executive Officers" and "Section 16(a) Beneficial Ownership Reporting Compliance" in our definitive proxy statement to be filed with the SEC no later than April 30, 2002.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference from the information under the caption entitled "Executive Officer Compensation" in our definitive proxy statement to be filed with the SEC no later than April 30, 2002.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this Item is incorporated by reference from the information under the caption entitled "Security Ownership of Certain Beneficial Owners and Management" in our definitive proxy statement to be filed with the SEC no later than April 30, 2002.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item is incorporated by reference from the information under the caption entitled "Transactions with Management and Others" in our definitive proxy statement to be filed with the SEC no later than April 30, 2002.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) (1) Financial Statements

(2) FINANCIAL STATEMENT SCHEDULES. Financial statement schedules are omitted because they are not applicable or the required information is shown in the Financial Statements or the Notes thereto.

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

2.1	Agreement and Plan of Merger of Acacia Research Corporation, a California corporation, and Acacia Research Corporation, a Delaware corporation, dated as of December 23, 1999 (1)
3.1	Certificate of Incorporation (2)
3.2	Amended and Restated Bylaws (3)
4.2	Form of Specimen Certificate of Acacia's Common Stock (4)
10.1	Lease Agreement dated April 30, 1998, between Acacia and EOP-Pasadena Towers, L.L.C., a Delaware limited liability company doing business as EOP-Pasadena, LLC (5)
10.2	Lease Agreement between Soundbreak.com Incorporated and 8730 Sunset Towers and related Guaranty (6)
10.3	1993 Stock Option Plan (7)
10.4	Form of Stock Option Agreement for 1993 Stock Option Plan (7)
10.5	1996 Stock Option Plan (8)
10.6	Form of Option Agreement constituting the 1996 Executive Stock Bonus Plan (9)
10.7	Agreement between Acacia Research and Paul Ryan (10)
10.8	First Amendment dated June 26, 2000, to Lease Agreement between Acacia and Pasadena Towers, L.L.C.
10.9*	Research & Development Agreement dated as of June 18, 2001, between CombiMatrix Corporation and Roche Diagnostics GmbH (3)
10.10*	License and Supply Agreement dated as of July 1, 2001, between CombiMatrix Corporation and Roche Diagnostics GmbH (3)
10.11	Sublease dated November 30, 2001, between Acacia and Jenkens & Gilchrist
10.12	Lease Agreement dated January 28, 2002, between Acacia and The Irvine Company
18.1	Preferability letter from PricewaterhouseCoopers LLP, dated as of March 31, 2002, regarding change in accounting policy
21	List of Subsidiaries
23.1	Consent of PricewaterhouseCoopers LLP

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* Confidential treatment for portions of these exhibits granted pursuant to an Order Granting Confidential Treatment under the Securities Exchange Act of 1934, issued on November 9, 2001, by the United States Securities and Exchange Commission.

(1) Incorporated by reference from Acacia's Report on Form 8-K filed on December 30, 1999 (SEC File No. 000-26068).

(2) Incorporated by reference as Appendix A to the Definitive Proxy Statement on Schedule 14A filed on November 2, 1999 (SEC File No. 000-26068) and to the Definitive Proxy Statement on Schedule 14A filed on April 10, 2000 (SEC File No. 000-26068).

(3) Incorporated by reference from Acacia's Quarterly Report on Form 10-Q filed on August 10, 2001 (SEC File No. 000-26068).

(4) Incorporated by reference from Amendment No. 2 on Form 8-A/A filed on December 30, 1999 (SEC File No. 000-26068).

(5) Incorporated by reference from Acacia's Quarterly Report on Form 10-Q filed on August 14, 1998. (SEC File No. 000-26068).

(6) Incorporated by reference from Acacia's Quarterly Report on Form 10-Q filed on November 15, 1999. (SEC File No. 000-26068).

(7) Incorporated by reference from Acacia's Registration Statement on Form SB-2 (33-87368-L.A.), which became effective under the Securities Act of 1933, as amended, on June 15, 1995.

(8) Incorporated by reference as Appendix A to the Definitive Proxy Statement on Schedule 14A filed on April 10, 2000 (SEC File No. 000-26068).

(9) Incorporated by reference from Acacia's Definitive Proxy as Appendix A Statement on Schedule 14A filed on April 26, 1996 (SEC File No. 000-26068).

(10) Incorporate by reference from Acacia's Annual Report on Form 10-K for the year ended December 31, 1997 filed on March 30, 1998 (SEC File No. 000-26068).

(b) Reports on Form 8-K.

On October 24, 2001, Acacia filed a Current Report on Form 8-K to report results for the quarter ended September 30, 2001.

On October 26, 2001, Acacia filed a Current Report on Form 8-K to report the declaration by Acacia's board of directors of a ten percent (10%) stock dividend for stockholders of record as of November 21, 2001, with a payment date of December 5, 2001.

On October 30, 2001, Acacia filed a Current Report on Form 8-K/A to amend the Form 8-K dated October 23, 2001 and filed on October 26, 2001 to report that the Form 8-K/A was being filed solely to reflect that the Form 8-K dated October 23, 2001 was filed under Item 5 rather than under Item 9.

On November 14, 2001, Acacia filed a Current Report on Form 8-K to report the filing with the SEC of Acacia's Form 10-Q for the quarter ended September 30, 2001, with retroactive recognition of the ten percent (10%) stock dividend in earnings per shares computations.

On December 21, 2001, Acacia filed a Current Report on Form 8-K to report the establishment by Paul R. Ryan, Chairman of the Board and Chief Executive Officer of Acacia, of a plan under Rule 10b5-1 of the SEC to provide predetermined sales of a portion of his Acacia common stock.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DATED: March 27, 2002

ACACIA RESEARCH CORPORATION
/s/ Paul R. Ryan

Paul R. Ryan
CHAIRMAN OF THE BOARD
AND CHIEF EXECUTIVE OFFICER
(AUTHORIZED SIGNATORY)

Pursuant to the requirements of the Securities and Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
/s/ Paul R. Ryan Paul R. Ryan	Chairman of the Board and Chief Executive Officer (Principal Chief Executive)	March 27, 2002
/s/ Robert L. Harris, II Robert L. Harris, II	Director and President	March 27, 2002
/s/ Clayton J. Haynes Clayton J. Haynes	Chief Financial Officer (Principal Financial Officer)	March 27, 2002
/s/ Thomas B. Akin Thomas B. Akin	Director	March 27, 2002
/s/ Fred A. de Boom Fred A. de Boom	Director	March 27, 2002
/s/ Edward W. Frykman Edward W. Frykman	Director	March 27, 2002
/s/ G. Louis Graziadio, III G. Louis Graziadio, III	Director	March 27, 2002

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and
Stockholders of Acacia Research Corporation

In our opinion, the consolidated financial statements listed in the index appearing under Item 14(a)(1) on page 38 present fairly, in all material respects, the financial position of Acacia Research Corporation ("Acacia" or "we") and its subsidiaries at December 31, 2001 and December 31, 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of Acacia's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 to the consolidated financial statements, effective January 1, 2001, Acacia changed its balance sheet classification for accrued subsidiary employee stock-based compensation charges, resulting in no cumulative effect on income.

As discussed in Note 2 to the consolidated financial statements, effective October 1, 2000, Acacia adopted Emerging Issues Task Force Consensus on Issue No. 00-27, "Application of Issue No. 98-5 to Certain Convertible Instruments," resulting in a charge of $246,000 in the year ended December 31, 2000 for cumulative effect of change in accounting principle due to beneficial conversion feature of debt.

/s/ PricewaterhouseCoopers LLP

Los Angeles, California
February 25, 2002, except as to Note 14,
which is as of March 27, 2002

ACACIA RESEARCH CORPORATION
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2001 AND 2000
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE INFORMATION)

	2001	2000
ASSETS		
Current assets:		
Cash and cash equivalents	$ 59,451	$ 36,163
Short-term investments	25,110	40,600
Prepaid expenses, other receivables and other assets	1,613	1,471
Total current assets	86,174	78,234
Property and equipment, net of accumulated depreciation	4,906	3,727
Investment in affiliate, at equity	--	346
Investment in affiliate, at cost	3,000	3,000
Patents, net of accumulated amortization	11,855	9,038
Goodwill, net of accumulated amortization	4,627	3,904
Other assets	297	267
	$ 110,859	$ 98,516
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable, accrued expenses and other	$ 5,756	$ 7,767
Current portion of deferred revenues	7,088	--
Current portion of capital lease obligation	934	--
Accrued stock compensation (Note 2)	--	10,392
Total current liabilities	13,778	18,159
Deferred income taxes	3,829	2,689
Deferred revenues, net of current portion	372	--
Capital lease obligation, net of current portion	1,845	--
Total liabilities	19,824	20,848
Commitments and contingencies (Note 12)		
Minority interests	32,303	17,524
Stockholders' equity:		
Preferred stock, par value $0.001 per share; 20,000,000 shares authorized; no shares issued or outstanding	--	--
Common stock, par value $0.001 per share; 60,000,000 shares authorized; 19,592,459 and 16,090,587 (Note 1 and 7) shares issued and outstanding as of December 31,2001and 2000, respectively	20	16
Additional paid-in capital	158,529	116,017
Warrants to purchase common stock	199	86
Comprehensive (loss) income	(4)	77
Accumulated deficit	(100,012)	(56,052)
Total stockholders' equity	58,732	60,144
	$ 110,859	$ 98,516

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

ACACIA RESEARCH CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
FOR THE YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE INFORMATION)

	2001	2000	1999
Revenues:			
License fee income	$ 24,180	$ --	$ --
Grant revenue	456	17	144
Other income	--	40	122
Total revenues	24,636	57	266
Operating expenses:			
Research and development expenses (including stock compensation charges of $7,183 and $3,397 in 2001 and 2000, respectively)	18,839	11,864	1,806
Marketing, general and administrative expenses (including stock compensation charges of $13,636, $7,307 and $146 in 2001, 2000 and 1999, respectively)	46,300	22,089	4,418
Amortization of patents and goodwill	2,695	2,251	1,622
Loss on disposal of consolidated subsidiaries	--	1,016	--
Total operating expenses	67,834	37,220	7,846
Operating loss	(43,198)	(37,163)	(7,580)
Other income (expense):			
Write-off of equity investments	--	(2,603)	--
Interest income	3,762	3,086	333
Realized gains on short-term investments	350	--	--
Unrealized gains on short-term investments	237	--	--
Interest expense	(65)	--	(254)
Equity in losses of affiliates	(195)	(1,746)	(1,121)
Other income	77	28	--
Total other income (expense)	4,166	(1,235)	(1,042)
Loss from continuing operations before income taxes and minority interests	(39,032)	(38,398)	(8,622)
(Provision) benefit for income taxes	(780)	73	(20)
Loss from continuing operations before minority interests	(39,812)	(38,325)	(8,642)
Minority interests	17,540	9,166	1,221
Loss from continuing operations	(22,272)	(29,159)	(7,421)
Discontinued operations			
Loss from discontinued operations of Soundbreak.com	--	(7,443)	(776)
Estimated loss on disposal of Soundbreak.com	--	(2,111)	--
Loss before cumulative effect of change in accounting principle	(22,272)	(38,713)	(8,197)
Cumulative effect of change in accounting principle due to beneficial conversion feature of debt	--	(246)	--
Net loss	(22,272)	(38,959)	(8,197)
Unrealized gain (loss) on short-term investments	(9)	77	--
Unrealized loss on foreign currency translation	(72)	--	--
Comprehensive loss	$ (22,353)	$ (38,882)	$ (8,197)
Loss per common share:			
Basic			
Loss from continuing operations	$ (1.16)	$ (1.78)	$ (0.59)
Loss from discontinued operations	--	(0.58)	(0.06)
Cumulative effect of change in accounting principle	--	(0.02)	--
Net loss	$ (1.16)	$ (2.38)	$ (0.65)
Diluted			
Loss from continuing operations	$ (1.16)	$ (1.78)	$ (0.59)
Loss from discontinued operations	--	(0.58)	(0.06)
Cumulative effect of change in accounting principle	--	(0.02)	--
Net loss	$ (1.16)	$ (2.38)	$ (0.65)
Weighted average number of common and potential common shares outstanding used in computation of loss per share:			
Basic	19,259,256	16,346,099	12,649,133
Diluted	19,259,256	16,346,099	12,649,133

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

ACACIA RESEARCH CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999
(IN THOUSANDS, EXCEPT SHARE INFORMATION)

	COMMON SHARES	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	WARRANTS TO PURCHASE COMMON STOCK	ACCUMULATED DEFICIT	COMPREHENSIVE INCOME (LOSS)	TOTAL
1999							
Balance at December 31, 1998	10,190,815	$ 10	$ 26,727	$ 100	$ (8,896)	$ --	$ 17,941
Net loss					(8,197)		(8,197)
Units issued in private placements, net	974,771	1	19,014	58			19,073
Shares issued to purchase equity investments	60,107		288				288
Stock options exercised	326,450	1	757				758
Warrants exercised	2,055,050	2	14,542	(100)			14,444
Increase in capital due to issuance of stock by subsidiaries			928				928
Compensation expense relating to stock options and warrants			27				27
Balance at December 31, 1999	13,607,193	14	62,283	58	(17,093)	--	45,262
2000							
Net loss					(38,959)		(38,959)
Units issued in private placements, net	872,638	1	22,199	86			22,286
Stock options exercised	543,961	1	2,131				2,132
Stock issuance related to acquisition of additional CombiMatrix shares	488,557		11,634				11,634
Warrants exercised	578,238		14,878	(58)			14,820
Increase in capital due to issuance of stock by subsidiaries			2,293				2,293
Compensation expense relating to stock options and warrants			599				599
Unrealized gain on short-term investments						77	77
Balance at December 31, 2000	16,090,587	16	116,017	86	(56,052)	77	60,144
2001							
Net loss					(22,272)		(22,272)
Units issued in private placement, net	1,127,274	1	18,247	113			18,361
Stock options exercised	596,888	1	1,251				1,252
Increase in capital due to issuance of stock by subsidiaries			1,283				1,283
Compensation expense relating to stock options and warrants			47				47
Stock dividend (Note 1 and 7)	1,777,710	2	21,684		(21,688)		(2)
Unrealized loss on short-term investments						(9)	(9)
Unrealized loss on foreign currency translation						(72)	(72)
Balance at December 31, 2001	19,592,459	$ 20	$158,529	$ 199	$ (100,012)	$ (4)	$ 58,732

ACACIA RESEARCH CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999
(IN THOUSANDS)

	2001	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES:			
Loss from continuing operations	$(22,272)	$(29,159)	$ (7,421)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	3,869	2,657	1,771
Equity in losses of affiliates	195	1,746	1,121
Minority interests in net loss	(17,540)	(9,166)	(1,221)
Compensation expense relating to stock options and warrants	20,819	10,704	146
Charge for acquired in-process research and development	--	2,508	--
Deferred tax benefit	(182)	(81)	--
Write-off of other assets	918	--	--
Write-off of equity investments	--	2,603	--
Net purchases of trading securities	(4,135)	--	--
Unrealized gain on short-term investments	(237)	--	--
Other	354	293	251
Changes in assets and liabilities, net of effects of acquisitions:			
Prepaid expenses, other receivables and other assets	(713)	(2,029)	223
Accounts payable, accrued expenses and other	1,085	2,040	415
Deferred revenues	7,460	--	--
Net cash used in operating activities of continuing operations	(10,379)	(17,884)	(4,715)
Net cash used in operating activities of discontinued operations	(2,182)	(16,600)	(1,420)
Net cash used in operating activities	(12,561)	(34,484)	(6,135)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of equity investments	--	(54)	(2,387)
Purchase of additional equity in consolidated subsidiaries	(3,304)	(970)	--
Deposit on investment	--	--	(3,000)
Withdrawals from partnerships	--	--	1,710
Purchase of property and equipment	(3,775)	(2,476)	(241)
Proceeds from sale and leaseback arrangement	3,000	--	--
Sale of available-for-sale investments	76,275	3,975	--
Purchase of available-for-sale investments	(56,686)	(43,606)	--
Purchase of common stock from minority stockholders of subsidiaries	(2,550)	--	--
Other	--	--	(84)
Net cash provided by (used in) investing activities of continuing operations	12,960	(43,131)	(4,002)
Net cash used in investing activities of discontinued operations	(145)	(1,173)	(649)
Net cash provided by (used in) investing activities	12,815	(44,304)	(4,651)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from exercise of stock options and warrants	1,774	17,771	15,202
Capital contributions from minority stockholders of subsidiaries	3,257	37,322	6,634
Proceeds from sale of common stock, net of issuance costs	18,349	22,199	19,073
Other	(221)	28	--
Net cash provided by financing activities	23,159	77,320	40,909
Increase (decrease) in cash and cash equivalents	23,413	(1,468)	30,123
Cash and cash equivalents, beginning	36,163	37,631	7,508
Effect of exchange rate on cash	(125)	--	--
Cash and cash equivalents, ending	$ 59,451	$ 36,163	$ 37,631

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

1. DESCRIPTION OF BUSINESS

Acacia Research Corporation ("Acacia" or "we") develops, licenses and provides products for the media technology and life science sectors.

Acacia's media technologies business, collectively referred to as, "Acacia Media Technologies Group," owns intellectual property related to the telecommunications field, including a television blanking system, also known as the "V-chip," which it licenses to television manufacturers. In addition, Acacia Media Technologies Group owns a worldwide portfolio of pioneering patents relating to audio and video transmission and receiving systems, commonly known as audio-on-demand and video-on-demand, used for distributing content via various methods including computer networks, cable television systems and direct broadcasting satellite systems. Acacia Media Technologies Group is responsible for the development, licensing and protection of its intellectual property and proprietary technologies. Our media technologies group continues to pursue both licensing and strategic business alliances with leading companies in the rapidly growing media technologies industry.

Acacia's life sciences business, collectively referred to as "Acacia Life Sciences Group" is comprised of CombiMatrix Corporation ("CombiMatrix") and Advanced Material Sciences, Inc. ("Advanced Material Sciences"). Our core technology opportunity in the life sciences sector has been developed through our majority-owned subsidiary, CombiMatrix. CombiMatrix is a life science technology company with a proprietary system for rapid, cost competitive creation of DNA and other compounds on a programmable semiconductor chip. This proprietary technology has significant applications relating to genomic and proteomic research. Our majority-owned subsidiary, Advanced Material Sciences, holds the exclusive license for CombiMatrix's biological array processor technology in certain fields of material sciences.

We were incorporated on January 25, 1993 under the laws of the State of California. In December 1999, we changed our state of incorporation from California to Delaware. Acacia owns and operates emerging corporations with intellectual property rights, certain of which are involved in developing new or unproven technologies. There is no assurance that any or all such technologies will be successful, and even if successful, that the development of such technologies can be commercialized.

Below is a summary of our most significant wholly and majority-owned subsidiaries and our related ownership percentages on an as-converted basis:

COMPANY NAME	DESCRIPTION OF BUSINESS	OWNERSHIP % AS OF 3/22/02 ON AN AS-CONVERTED BASIS
ACACIA MEDIA TECHNOLOGIES GROUP:		
Soundview Technologies Incorporated.....	A media technology company that owns intellectual property related to the telecommunications field, including a television blanking system, also known as "V-chip," which it is licensing to television manufacturers.	100.0%
Acacia Media Technologies Corporation (formerly Greenwich Information Technologies LLC).....	A media technology company that owns a worldwide portfolio of pioneering patents relating to audio and video transmission and receiving systems, commonly known as audio-on-demand and video-on-demand, used for distributing content via various methods including computer networks, cable television systems and direct broadcasting satellite systems.	100.0%

ACACIA LIFE SCIENCES GROUP:		
CombiMatrix Corporation.....	A life science technology company with a proprietary system for rapid, cost competitive creation of DNA and other compounds on a programmable semiconductor chip. This proprietary technology has significant applications relating to genomic and proteomic research.	57.5%(1)
Advanced Material Sciences, Inc.....	A development-stage company that holds the exclusive license for CombiMatrix's biological array processor technology in certain fields of material science.	58.1%(2)

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(1) We are a party to a shareholder agreement with an officer of CombiMatrix, which provides for (a) the collective voting of shares (representing 69.5% of the voting interests of CombiMatrix) for the election of certain directors to CombiMatrix's board of directors and (b) certain restrictions on the sale or transfer of the officer's shares of common stock in CombiMatrix.

(2) Advanced Material Sciences is 58.1% owned by us, 28.5% owned by CombiMatrix and 13.4% owned by third-parties. We have a 74.5% economic interest in Advanced Material Sciences by virtue of our 58.1% direct ownership interest in Advanced Material Sciences and our 57.5% interest in CombiMatrix.

ACACIA RESEARCH CORPORATION

In January 2001, we completed an institutional private equity financing raising gross proceeds of $19.0 million through the issuance of 1,107,274 units. Each unit consists of one share of our common stock and one three-year callable common stock purchase warrant. Each common stock purchase warrant entitles the holder to purchase 1.10 shares of our common stock at a price of $19.09 per share and is callable by us once the closing bid price of our common stock averages $23.86 or above for 20 or more consecutive trading days on the NASDAQ National Market System. We issued an additional 20,000 units in lieu of cash payments for finders' fees in conjunction with the private placement.

In June 2001, our ownership interest in Soundview Technologies Incorporated ("Soundview Technologies") increased from 67% to 100%, following Soundview Technologies' completion of a stock repurchase transaction with its former minority stockholders. Soundview Technologies repurchased the stock of its former minority stockholders in exchange for a cash payment and the grant to such stockholders of the right to receive 26% of future net revenues generated by Soundview Technologies' current patent portfolio, which includes its V-chip patent.

On October 22, 2001, our board of directors declared a ten percent (10%) stock dividend. The stock dividend totaling 1,777,710 shares of our common stock was distributed on December 5, 2001 to stockholders of record as of November 21, 2001. All references to the number of shares (other than common stock issued or outstanding on the 2000 consolidated balance sheet and 2001, 2000 and 1999 consolidated statements of stockholders' equity), per share amounts and any other reference to shares in the consolidated financial statements and accompanying notes to the consolidated financial statements, unless otherwise noted, have been adjusted to reflect the stock dividend on a retroactive basis.

In November 2001, we increased our ownership interest in Acacia Media Technologies Corporation ("Acacia Media Technologies"), formerly Greenwich Information Technologies LLC, from 33% to 100% through the purchase of the ownership interest of the former limited liability company's other member. In December 2001, we converted the company from a limited liability company to a corporation and changed the name of the company to Acacia Media Technologies.

In the third quarter of 2000, we completed a private offering of 861,638 units at $27.50 per unit for gross proceeds of approximately $23.7 million. Each unit consists of one share of common stock and one common stock purchase warrant entitling the holder to purchase 1.10 shares of common stock at an exercise price $30.00 per share, subject to adjustment, expiring in three years. The warrants are callable by Acacia once the closing bid price of Acacia's common stock averages $36.00 or above for 20 consecutive trading days on the NASDAQ National Market System. We issued an additional 11,000 units in lieu of cash payments for finders' fees in conjunction with the private placement.

In the fourth quarter of 1999, we completed a private placement consisting of the sale of units, each composed of one share of Acacia's common stock and one-half of a common stock purchase warrant. We issued 974,771 units at an offering price of $21.50 per unit. Approximately $21.0 million was raised from this financing. During the first quarter of 2000, we issued a 30-day redemption notice for these warrants. As a result, all of these warrants were exercised prior to the redemption date with Acacia receiving proceeds of approximately $14.8 million.

ACACIA MEDIA TECHNOLOGIES GROUP

SOUNDVIEW TECHNOLOGIES

In June 2001, Soundview Technologies repurchased the stock of the former minority stockholders of Soundview Technologies in exchange for a cash payment and the grant to the former stockholders of the right to receive 26% of future net revenues generated by Soundview Technologies' current patent portfolio, which includes its V-chip patent. As of December 31, 2001, total consideration paid combined with amounts accrued pursuant to the stock repurchase agreements totaled $2,767,000. As a result of the stock repurchase transaction our ownership interest in Soundview Technologies increased from 67% to 100%.

During 2001, Soundview Technologies executed separate settlement and/or license agreements with Samsung Electronics, Hitachi America, Ltd., LG Electronics, Inc., Funai Electric Co. Ltd., Daewoo Electronics Corporation of America, Sanyo Manufacturing Corporation, Thomson Multimedia, Inc., JVC Americas Corporation, Matsushita Electric Industrial Co., Ltd. and Orion Electric Co., Ltd. In addition, Soundview Technologies settled its lawsuits with Pioneer Electronics (USA) Incorporated, an affiliate of Pioneer Corporation, and received payments from Philips Electronics pursuant to a settlement and license agreement signed in December 2000. Certain of these license agreements constitute settlements of patent infringement litigation brought by Soundview Technologies. As of December 31, 2001, we received license fee payments totaling $25,630,000 from the settlement and license agreements and have granted non-exclusive, retroactive and future licenses of Soundview Technologies' U.S. Patent No. 4,554,584 to the respective television manufacturers. Certain of the settlement and license agreements provide for future royalty payments to Soundview Technologies. We received and recognized as revenue $2,390,000, $10,000,000, $10,740,000 and $1,000,000 of the license fee payments during the first, second, third and fourth quarters of 2001, respectively. License fee payments received during 2001 totaling $1,500,000 are included in deferred revenues pursuant to the terms of the respective agreements.

In the second quarter of 2000, Soundview Technologies announced that it filed a federal patent infringement and antitrust lawsuit against Sony Corporation of America, Philips Electronics North America Corporation, the Consumer Electronics Manufacturers Association and the Electronics Industries Alliance d/b/a/ Consumer Electronics Association. In its lawsuit, Soundview Technologies alleged that Sony and Philips Television sets fitted with "V-chips" infringe Soundview Technologies' patent and that the Consumer Electronics Manufacturers Association had induced infringement of the patent.

ACACIA MEDIA TECHNOLOGIES

Acacia Media Technologies, formally Greenwich Information Technologies LLC, owns a worldwide portfolio of pioneering patents relating to audio and video transmission and receiving systems, commonly known as audio-on-demand and video-on-demand, used for distributing content via various methods including computer networks, cable television systems and direct broadcasting satellite systems.

In November 2001, we increased our ownership interest in Acacia Media Technologies from 33% to 100% through the purchase of the ownership interest of the former limited liability company's other member. In December 2001, we converted the company from a limited liability company to a corporation, and changed the name of the company to Acacia Media Technologies Corporation.

COMBIMATRIX

In July 2001, CombiMatrix entered into a non-exclusive worldwide license, supply, research and development agreement with Roche Diagnostics GmbH ("Roche"). Under the terms of the agreement, Roche will purchase, use and resell CombiMatrix's microarray and related technologies for rapid production of customizable biochips. Additionally, CombiMatrix and Roche will develop a platform technology, providing a range of standardized biochips for use in research applications. The agreement has a 15-year term and provides for minimum payments by Roche to CombiMatrix over the first three years, including milestone achievements, payments for products, royalties and research and development projects. In the third and fourth quarters of 2001, CombiMatrix received up-front and milestone payments totaling $5.3 million from Roche, which are included in deferred revenues in the accompanying December 31, 2001 consolidated balance sheet.

In August 2001, CombiMatrix entered into a license and supply agreement with the National Aeronautics and Space Administration ("NASA"). The agreement has a two-year tern and provides for the license, purchase and use by the NASA Ames Research Center of CombiMatrix's active biochips (microarrays) and related technology to conduct biological research in terrestrial laboratories and in space.

In October 2001, CombiMatrix formed a joint venture with Marubeni Japan, one of Japan's leading trading companies. The joint venture, based in Tokyo, will focus on development and licensing opportunities for CombiMatrix's biochip technology with pharmaceutical and biotechnology companies in the Japanese market. Marubeni made an investment of $1.0 million to acquire a ten percent (10%) minority interest in the joint venture.

In the first quarter of 2000, CombiMatrix completed a private equity financing raising gross proceeds of $17.5 million through the sale of 3,500,000 shares of CombiMatrix common stock. Acacia invested $10.0 million in this private placement to acquire 2,000,000 shares of CombiMatrix common stock. As a result of the transaction, we increased our equity ownership in CombiMatrix from 50.01% to 51.8%.

In the third quarter of 2000, we increased our ownership interest in CombiMatrix from 51.8% to 61.4% by acquiring an additional ownership position from existing stockholders of CombiMatrix in exchange for 488,557 shares of Acacia's common stock. This purchase was accounted for as a step acquisition. The purchase price of $11.6 million was allocated to the fair value of assets acquired and liabilities assumed, including acquired in-process research and development. The amount attributable to goodwill was $2.9 million, which is amortized using the straight-line method over the estimated remaining useful life of five years. The amount attributable to in-process research and development of $2.5 million was charged to expense and is included in the consolidated statement of operations and comprehensive loss for the year ended December 31, 2000.

In the third quarter of 2000, CombiMatrix completed a private equity financing raising gross proceeds of $36.0 million through the sale of 4,000,000 shares of CombiMatrix common stock. Acacia invested $17.5 million in this private placement to acquire 1,944,445 shares. As a result of the transaction, our equity ownership in CombiMatrix decreased from 61.4% to 58.4%.

ADVANCED MATERIAL SCIENCES

In May 2001, Advanced Material Sciences completed a private equity financing raising gross proceeds of $2.0 million through the issuance of 2,000,000 shares of common stock. Acacia invested $155,000 in this private placement to acquire 155,000 shares. As a result of the transaction, our equity ownership in Advanced Material Sciences decreased from 66.7% to 58.1%. Advanced Material Sciences issued an additional 29,750 shares of common stock, in lieu of cash payments, and warrants to purchase approximately 54,000 shares of common stock, for finders' fees in connection with the private placement. Each common stock purchase warrant entitles the holder to purchase shares of Advanced Material Sciences common stock at a price of $1.10 per share.

Advanced Material Sciences was formed in November 2000 and holds an exclusive license to CombiMatrix's biological processor technology within the field of material science. Initial investments for Advanced Material Sciences consisted of $2.0 million from us and $1.0 million from CombiMatrix.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ACCOUNTING PRINCIPLES AND FISCAL YEAR END. The consolidated financial statements and accompanying notes are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America. We have a December 31 year end.

PRINCIPLES OF CONSOLIDATION. The accompanying consolidated financial statements include the accounts of Acacia and its wholly-owned and majority-owned subsidiaries. Material intercompany transactions and balances have been eliminated in consolidation. Investments in companies in which we maintain an ownership interest of 20% to 50% or exercise significant influence over operating and financial policies are accounted for under the equity method. The cost method is used where we maintain ownership interests of less than 20% and do not exercise significant influence over the investee.

REVENUE RECOGNITION. We recognize revenue in accordance with Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB No. 101"). License fee income is recognized as revenue when (i) persuasive evidence of an arrangement exists, (ii) all obligations have been performed pursuant to the terms of the license agreement, (iii) amounts are fixed or determinable and (iv) collectibility of amounts is reasonably assured. Revenue from government grant and contract activities is accounted for in the period the services are performed on a percentage-of-completion method of accounting when the services have been approved by the grantor and collectibility is reasonably assured. Amounts recognized under the percentage-of-completion method are limited to amounts due from customers based on contract or grant terms.

Revenue from the sale of products and services is recognized when (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or services have been rendered, (iii) the fees are fixed and determinable and (iv) collectibility is reasonably assured.

Revenues from multiple-element arrangements involving license fees, up-front payments and milestone payments, which are received or billable by us in connection with other rights and services that represent continuing obligations of ours, are deferred until all of the elements have been delivered or until we have established objective and verifiable evidence of the fair value of the undelivered elements.

Deferred revenue arises from payments received in advance of the culmination of the earnings process. Deferred revenue expected to be recognized within the next twelve months is classified as a current liability. At December 31, 2001, we recorded $7.5 million as deferred revenues related to payments received under multiple-element arrangements and other advances, which will be recognized as revenue in future periods when the applicable revenue recognition criteria as describe above are met.

CASH AND CASH EQUIVALENTS. We consider all highly liquid, short-term investments with original maturities of three months or less when purchased to be cash equivalents.

SHORT-TERM INVESTMENTS. Our short-term investments are held in a variety of interest bearing instruments including high-grade corporate bonds, commercial paper, money market accounts and other marketable securities. Investments in securities with maturities of greater than three months and less than one year are classified as short-term investments. Investments are classified into categories in accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS No. 115"). Certain of our investments are classified as available-for-sale, which are reported at fair value with related unrealized gains and losses in the value of such securities recorded as a separate component of comprehensive income (loss) in stockholders' equity until realized. Certain of our investments are classified as trading securities, which are reported at fair value. Realized and unrealized gains and losses in the value of trading securities are included in net income (loss) in the consolidated statements of operations and comprehensive loss.

The fair value of our investments is primarily determined by quoted market prices. Realized and unrealized gains and losses are recorded based on the specific identification method. For investments classified as available-for-sale, unrealized losses that are other than temporary are recognized in net income.

CONCENTRATION OF CREDIT RISKS. Cash and cash equivalents are invested in deposits with certain financial institutions and may, at times, exceed federally insured limits. We have not experienced any losses on our deposits of cash and cash equivalents.

PROPERTY AND EQUIPMENT. Property and equipment are recorded at cost. Major additions and improvements are capitalized. When these assets are sold or otherwise disposed of, the asset and related depreciation are relieved, and any gain or loss is included in income for the period of sale or disposal. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets, ranging from three to ten years.

Certain equipment held under capital lease is included in property, plant and equipment and amortized using the straight line method over the lease term. The related capital lease obligation is recorded as a liability in the consolidated balance sheet. Capital lease amortization is included in depreciation expense in the consolidated statement of operations and comprehensive loss.

PREPAID PUBLIC OFFERING COSTS. As of September 30, 2001, CombiMatrix capitalized $1,353,000 of costs incurred in connection with the filing of a registration statement with the Securities and Exchange Commission ("SEC") in November 2000. Deferred costs totaling $918,000 are included in current assets in our December 31, 2000 consolidated balance sheet. In the fourth quarter of 2001, all of these deferred costs were charged to operations.

ORGANIZATION COSTS. Costs of start-up activities, including organization costs, are expensed as incurred.

MANAGEMENT FEES. Capital management fees in 1999 include asset-based and performance-based fees earned from two domestic private investment partnerships in which we were a general partner and two offshore investment corporations for which we served as an investment advisor. These capital management fees were recognized when earned in accordance with the respective partnership and management agreements. Management fees also include income from other consulting and management services provided by Acacia to other parties. These fees are recognized when the related services are provided. On December 31, 1999, we closed the Acacia Capital Management division.

PATENTS AND GOODWILL. Patents, once issued, and goodwill are amortized on the straight-line method over their estimated remaining useful lives, ranging from three to twenty years. Amortization charged to operations relating to goodwill amounted to $1,078,000, $921,000 and $465,000 at December 31, 2001, 2000 and 1999, respectively. Accumulated amortization of goodwill amounted to $3,651,000 and $1,894,000 at December 31, 2001 and 2000, respectively. Amortization charged to operations relating to patents amounted to $1,617,000, $1,330,000 and $1,157,000 at December 31, 2001, 2000 and 1999, respectively. Accumulated amortization of patents amounted to $5,655,000 and $4,038,000 at December 31, 2001 and 2000, respectively.

POTENTIAL IMPAIRMENT OF LONG-LIVED ASSETS. We review long-lived assets and intangible assets for potential impairment when events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. In the event the sum of the expected undiscounted future cash flows resulting from the use of the asset is less than the carrying amount of the asset, an impairment loss equal to the excess of the asset's carrying value over its fair value is recorded. If an asset is determined to be impaired, the loss is measured based on quoted market prices in active markets, if available. If quoted market prices are not available, the estimate of fair value is based on various valuation techniques, including a discounted value of estimated future cash flows.

FAIR VALUE OF FINANCIAL INSTRUMENTS. The carrying value of cash and cash equivalents, other receivables, accounts payable and accrued expenses approximate fair value due to their short-term maturity. The carrying value of our capital lease obligation approximates its fair value based on the current interest rate for similar type instruments. The fair values of our investments are primarily determined by quoted market prices.

FOREIGN CURRENCY TRANSLATION. The functional currency of our foreign entity is the local currency. Foreign currency translation is reported pursuant to SFAS No. 52, "Foreign Currency Translation" ("SFAS No. 52"). Assets and liabilities recorded in foreign currencies are translated at the exchange rate on the balance sheet date. Translation adjustments resulting from this process are charged or credited to other comprehensive income. Revenue and expenses are translated at average rates of exchange prevailing during the year.

STOCK-BASED COMPENSATION. Compensation cost of stock options issued to employees is accounted for in accordance with Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25") and related interpretations. Compensation cost attributable to such options is recognized based on the difference, if any, between the closing market price of the stock on the date of grant and the exercise price of the option. Compensation cost is deferred and amortized on an accelerated basis over the vesting period of the individual option awards using the amortization method prescribed in Financial Accounting Standards Board ("FASB") Interpretation No. 28, "Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans" ("FIN No. 28"). We have adopted the disclosure only requirements of SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123") with respect to options issued to employees. Compensation cost of stock options and warrants issued to non-employee service providers is accounted for under the fair value method required by SFAS No. 123 and Emerging Issues Task Force Issue No. 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services."

See "ACCOUNTING CHANGES" for change in accounting policy for accrued subsidiary employee stock-based compensation charges.

RESEARCH AND DEVELOPMENT EXPENSES. Research and development expenses consist of costs incurred for direct and overhead-related research expenses and are expensed as incurred. Costs to acquire technologies which are utilized in research and development and which have no alternative future use are expensed when incurred. Costs related to filing and pursuing patent applications are expensed as incurred, as recoverability of such expenditures is uncertain. Software developed for use in our products is expensed as incurred until both (i) technological feasibility for the software has been established and (ii) all research and development activities for the other components of the system have been completed. We believe these criteria are met after we have received evaluations from third-party test sites and completed any resulting modifications to the products. Expenditures to date have been classified as research and development expense.

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

ACCOUNTING FOR SALES OF STOCK BY A SUBSIDIARY. Gains resulting from a subsidiary's sale of stock to third-parties at a price per share in excess of Acacia's average carrying amount per share are generally reflected in stockholders' equity as a direct increase to capital in excess of par or stated value. See Note 7 for description of current year gains reflected in stockholders' equity as a result of our subsidiaries sales of stock to third-parties.

COMPREHENSIVE (LOSS) INCOME. Comprehensive income is the change in equity from transactions and other events and circumstances other than those resulting from investments by owners and distributions to owners.

SEGMENT REPORTING. We use the management approach, which designates the internal organization that is used by management for making operating decisions and assessing performance as the basis of Acacia's reportable segments. At December 31, 2001, our reporting segments were modified to include Soundview Technologies and Acacia Media Technologies in our Acacia Media Technologies Group segment. In addition, CombiMatrix and Advanced Material Sciences comprise our Acacia Life Sciences Group segment. Segment information has been adjusted for all periods presented.

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

LOSS PER SHARE. Loss per share is presented on both a basic and diluted basis. A reconciliation of the denominator of the basic EPS computation to the denominator of the diluted EPS computation is as follows:

	2001	2000	1999
Weighted Average Number of Common Shares Outstanding Used in Computation of Basic EPS	19,259,256	16,346,099	12,649,133
Dilutive Effect of Outstanding Stock Options and Warrants (a)	--	--	--
Weighted Average Number of Common and Potential Common Shares Outstanding Used in Computation of Diluted EPS	19,259,256	16,346,099	12,649,133

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(a) Potential common shares of 719,471, 1,046,072 and 940,002 at December 31, 2001, 2000 and 1999, respectively, have been excluded from the per share calculation because the effect of their inclusion would be anti-dilutive.

RECLASSIFICATIONS. Certain immaterial reclassifications of prior year amounts have been made to conform to the 2001 presentation.

ACCOUNTING CHANGES. Effective January 1, 2001, we changed our accounting policy for balance sheet classification of employee stock-based compensation resulting from awards in consolidated subsidiaries. Historically, the consolidated financial statements have accounted for cumulative earned employee stock-based compensation related to subsidiaries as a liability, under the caption "accrued stock compensation." Management believes a change to reflect these cumulative charges as minority interests is preferable as it better reflects the underlying economics of the stock-based compensation transaction. As a result of the change, effective January 1, 2001, minority interests has been increased by $10.4 million, and accrued stock compensation of $10.4 million has been decreased. The change in accounting policy does not affect previously reported consolidated net income.

During March 1998, CombiMatrix issued $1,450,000 principal amount of 6% unsecured subordinated convertible promissory notes due in 2001. The notes had a contingent beneficial conversion feature with intrinsic value of $246,000. We adopted Emerging Issues Task Force Consensus of Issues No. 00-27, "Application of Issue No. 98-5 to Certain Convertible Instruments" ("EITF 00-27"), in the fourth quarter of 2000. The adoption of EITF 00-27 resulted in a charge of $246,000 in the year ended December 31, 2000 for the cumulative effect of a change in accounting principle in accordance with APB Opinion No. 20, "Accounting Changes."

RECENT ACCOUNTING PRONOUNCEMENTS. In June 2001, the FASB issued SFAS No. 141, "Business Combinations" ("SFAS No. 141"), and SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"). SFAS No. 141 requires that the purchase method be used for all business combinations initiated after June 30, 2001 and that certain intangible assets acquired in a business combination be recognized apart from goodwill. The adoption of SFAS No. 141 did not have a material effect on our consolidated results of operations or financial position.

SFAS No. 142 requires goodwill to be tested for impairment under certain circumstances, and written off when determined to be impaired, rather than being amortized as previous standards required. We will adopt SFAS No. 142 effective January 1, 2002. We have recorded approximately $1.1 million of goodwill amortization during 2001. As a result of SFAS No. 142, we will no longer amortize goodwill. In lieu of amortization, we are required to perform an initial impairment review of our goodwill in 2002 and an annual impairment review thereafter. We expect to complete our initial review during the first quarter of 2002. We currently do not expect to record an impairment charge upon completion of the initial impairment review. However, there can be no assurance that at the time the review is completed a material impairment charge will not be recorded.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144"), which addresses financial accounting and reporting for the impairment of long-lived assets and for long-lived assets to be disposed of. SFAS No. 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." SFAS No. 144 also supersedes the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," for segments of a business to be disposed of. SFAS No. 144 also amends ARB No. 51, "Consolidated Financial Statements," to eliminate the exception to consolidation for a temporarily controlled subsidiary. SFAS No. 144 requires long-lived assets to be tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. In conjunction with such tests, it may be necessary to review depreciation estimates and methods as required by APB Opinion No. 20, "Accounting Changes," or the amortization period as required by SFAS No. 142. We will adopt SFAS No. 144 effective January 1, 2002. We are currently assessing the impact of SFAS No. 144 on our operating results and financial condition upon adoption.

3. SHORT-TERM INVESTMENTS

Short-term investments consists of the following at December 31, 2001 and 2000:

2001	AMORTIZED COST	FAIR VALUE
Trading securities	$ --	$ 4,372,000
Available-for-sale-securities:		
Corporate bonds and notes	14,427,000	14,869,000
U.S. government securities	5,643,000	5,869,000
	$20,070,000	$25,110,000

2000	AMORTIZED COST	FAIR VALUE
Available-for-sale-securities:		
Corporate bonds and notes	$37,689,000	$38,622,000
U.S. government securities	1,971,000	1,978,000
	$39,660,000	$40,600,000

Gross unrealized gains and losses related to available-for-sale securities were not material for 2001 and 2000.

Contractual maturities for investments in debt securities classified as available-for-sale as of December 31, 2001 are as follows:

	COST	FAIR VALUE
Due within one year	$ 5,103,000	$ 5,669,000
Due after one year through two years	14,967,000	15,069,000
	$20,070,000	$20,738,000

4. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31, 2001 and 2000:

	2001	2000
Machine shop and laboratory equipment	$ 844,000	$ 1,250,000
Furniture and fixtures	445,000	550,000
Computer hardware and software	1,203,000	1,085,000
Leasehold improvements	565,000	228,000
Facilities and equipment held under capital lease	3,000,000	--
Construction in progress	84,000	1,346,000
	$ 6,141,000	$ 4,459,000
Less: accumulated depreciation and amortization	(1,235,000)	(732,000)
	$ 4,906,000	$ 3,727,000

Depreciation expense was $1,174,000, $471,00 and $248,000 for the years ended December 31, 2001, 2000 and 1999, respectively. Amortization of assets held under capital lease was $161,000 for the year ended December 31, 2001.

5. BALANCE SHEET COMPONENTS

Accounts payable, accrued expenses and other consists of the following at December 31, 2001 and December 31, 2000:

	2001	2000
Accounts payable	$ 837,000	$ 2,285,000
Payroll, vacation and other employee benefits	1,740,000	711,000
Accrued liabilities of discontinued operations	1,342,000	3,599,000
Taxes payable	356,000	--
Accrued subsidiary shareholder redemption payments	217,000	--
Other accrued liabilities	1,264,000	1,172,000
	$ 5,756,000	$ 7,767,000

Deferred revenues consist of the following at December 31, 2001:

	2001
Milestone and up-front payments	$ 5,960,000
License fee payments	1,500,000
	$ 7,460,000
Less: current portion	(7,088,000)
	$ 372,000

6. INVESTMENTS

At December 31, 2000, we carried our 33% ownership interest in Acacia Media Technologies, formerly Greenwich Information Technologies LLC, under the equity method at a carrying value of $346,000. In November 2001, we increased our ownership interest in Acacia Media Technologies from 33% to 100% through the purchase of the ownership interest of the former limited liability company's other member. In December 2001, Acacia Media Technologies was incorporated under the laws of the State of Delaware and we changed the name from Greenwich Information Technologies LLC to Acacia Media Technologies Corporation. The ownership interest purchase has been accounted for as a purchase transaction in accordance with SFAS No. 141. The excess purchase price was allocated to Acacia Media Technologies' patent portfolio and is being amortized over the remaining life of the respective patents, which is approximately 10 years. The results of operations have been included in the consolidated statement of operations and comprehensive loss from the date of acquisition. Pro forma results of operations have not been presented because the effects of these acquisitions were not material on either an individual or aggregate basis.

In the first quarter of 2000, Acacia acquired a 7.6% interest in Advanced Data Exchange for $3.0 million out of a $17.3 million private placement of "non-voting" Series B preferred stock. Advanced Data Exchange is a corporation engaged in business-to-business Internet exchange transactions that allow mid-sized companies to exchange its purchase orders, purchase order acknowledgments, advance ship notices, invoices and other business documents over the Internet with supply chain partners and emerging digital marketplaces. Subsequent to an additional $30 million equity financing completed in the second quarter of 2000, we currently own a 4.9% interest in Advanced Data Exchange and have no board of directors representation. Additional rounds of financing may further dilute our interest. We do not have the ability to control decision making at Advanced Data Exchange.

In the fourth quarter of 2000, we recorded $1,016,000 in write-offs of early stage investments. In addition, we recorded $2,603,000 in write-offs of certain equity investments.

7. STOCKHOLDERS' EQUITY

The authorized capital stock of Acacia consists of 60,000,000 shares of common stock, $0.001 par value, of which 19,592,459 and 17,699,646 (as adjusted for ten percent (10%) stock dividend distributed on December 5, 2001) shares were issued and outstanding as of December 31, 2001 and 2000, respectively, and 20,000,000 shares of preferred stock, $0.001 par value, no shares of which are issued or outstanding. Under the terms of Acacia's Certificate of Incorporation, the board of directors may determine the rights, preferences and terms of our authorized but unissued shares of preferred stock. Holders of common stock are entitled to one vote per share on all matters to be voted on by the stockholders, and to receive ratably such dividends, if any, as may be declared by the board of directors out of funds legally available therefore. Upon the liquidation, dissolution or winding up of Acacia, the holders of common stock are entitled to share ratably in all assets of Acacia which are legally available for distribution, after payment of all debts and other liabilities. Holders of common stock have no preemptive, subscription, redemption or conversion rights.

On October 22, 2001, our board of directors declared a ten percent (10%) stock dividend. The stock dividend totaling 1,777,710 shares of our common stock was distributed on December 5, 2001 to stockholders of record as of November 21, 2001. The fair value of the stock dividend paid, based on the market value of our common stock on the date of declaration as adjusted for the dilutive effect of the stock dividend declared, is reflected as a reclassification of accumulated deficit in the amount of $21,688,000, to permanent capital, represented by our common stock and additional paid-in capital accounts. All references to the number of shares (other than common stock issued or outstanding on the 2000 consolidated balance sheet and 2001, 2000 and 1999 consolidated statements of stockholders' equity), per share amounts and any other reference to shares in the consolidated financial statements and accompanying notes to the consolidated financial statements, unless otherwise noted, have been adjusted to reflect the stock dividend on a retroactive basis.

In May 2001, Advanced Material Sciences completed a private equity financing raising gross proceeds of $2.0 million through the issuance of 2,000,000 shares of common stock. Acacia invested $155,000 in this private placement to acquire 155,000 shares. As a result of the transaction, our equity ownership in Advanced Material Sciences decreased from 66.7% to 58.1%. Additionally, in October 2001, a subsidiary of CombiMatrix sold 10% of its voting common stock to a joint venture partner in Japan. The gain, totaling $1,283,000, resulting from our subsidiaries sale of stock to third-parties at a price per share in excess of our carrying amount per share has been reflected as a direct increase to additional paid-in capital in consolidated stockholders' equity.

8. PROVISIONS FOR INCOME TAXES

Provision (benefit) for income taxes consists of the following:

	2001	2000	1999
Current:			
U.S. Federal tax	$ 776,000	$ 2,500	$ 12,000
State taxes	186,000	3,500	8,000
	962,000	6,000	20,000
Deferred:			
U.S. Federal tax	(182,000)	(79,000)	--
State taxes	--	--	--
	(182,000)	(79,000)	--
	$ 780,000	$ (73,000)	$ 20,000

The tax effects of temporary differences and carryforwards that give rise to significant portions of deferred assets and liabilities consist of the following at December 31, 2001 and 2000:

	2001	2000
Basis of investments in affiliates	$ 16,789,000	$ 9,362,000
Intangibles	(3,829,000)	(2,689,000)
Depreciation and amortization	(4,000)	(118,000)
Stock compensation	6,993,000	2,737,000
Accrued liabilities	1,061,000	740,000
Net operating loss carryforwards and credits	25,084,000	27,257,000
	46,094,000	37,289,000
Less: valuation allowance	(49,923,000)	(39,978,000)
	$ (3,829,000)	$ (2,689,000)

A reconciliation of the federal statutory income tax rate and the effective income tax rate is as follows:

	2001	2000	1999
Statutory federal tax rate	(34%)	(34%)	(34%)
State income taxes, net of federal benefit	(3%)	(3%)	(3%)
Amortization of intangible assets	2%	1%	5%
Stock compensation	7%	3%	0%
Valuation allowance	30%	33%	32%
	2%	0%	0%

At December 31, 2001, we had U.S. Federal and California state income tax net operating loss carry forwards ("NOLs") of approximately $29,680,000 and $16,531,000, expiring between 2002 and 2021, excluding NOLs at CombiMatrix and other subsidiaries. In addition, we had tax credit carryforwards of approximately $102,000.

The aggregate tax NOLs at CombiMatrix and other subsidiaries are approximately $40,225,000 and $8,999,000 for federal and state income tax purposes, respectively, expiring between 2002 and 2021. CombiMatrix and other subsidiaries also have tax credit carryforwards of approximately $840,000, which begin expiring in 2011. However, the use of these NOLs and tax credits are limited to the separate earnings of the respective subsidiaries. In addition, ownership changes may also restrict the use of NOLs and tax credits.

As of December 31, 2001, approximately $9,507,000 of the valuation allowance related to the tax benefits of stock option deductions included in Acacia's NOLs. At such time as the valuation allowance is released, the benefit will be credited to additional paid-in capital.

9. DISCONTINUED OPERATIONS

On February 13, 2001, the board of directors of Soundbreak.com Incorporated ("Soundbreak.com"), a majority-owned subsidiary of Acacia, resolved to cease operations as of February 15, 2001 and liquidate the remaining assets and liabilities of the subsidiary. Accordingly, we reported the results of operations and the estimated loss on disposal of Soundbreak.com as results of discontinued operations in the 2000 consolidated statements of operations and comprehensive loss.

Following is summary financial information for the discontinued operations:

	2000	1999
Net sales	$ 4,000	$ --
Loss from discontinued operations:		
Before minority interests	$ 16,437,000	$ 1,784,000
Minority interests	(8,994,000)	(1,008,000)
Net	$ 7,443,000	$ 776,000
Estimated loss on disposal:		
Before minority interests	$ 5,066,000	$ --
Minority interests	(2,955,000)	--
Net	$ 2,111,000	$ --

Discontinued operations did not have an impact on the December 31, 2001 consolidated statement of operations and comprehensive loss.

The assets and liabilities of the discontinued operations at December 31, 2001 consist primarily of $4,014,000 of cash and cash equivalents and $1,342,000 of accounts payable and accrued expenses.

The assets and liabilities of the discontinued operations at December 31, 2000 primarily consist of $6,620,000 of cash and cash equivalents, $10,000 of management fees and other receivables, $74,000 of prepaid expenses, $164,000 of other assets, $207,000 in property and equipment and $3,599,000 of accounts payable and accrued expenses.

10. STOCK OPTIONS AND WARRANTS

We have three stock option plans currently in effect: the 1993 Stock Option Plan (the "1993 Plan"), the 1996 Executive Stock Bonus Plan (the "Bonus Plan") and the 1996 Stock Option Plan (the "1996 Plan").

Options under the 1993 plan authorize the granting of both options intended to qualify as "incentive stock options" under Section 422A of the Internal Revenue Code ("Incentive Stock Options") and stock options that are not intended to so qualify ("Nonqualified Stock Options") to officers, directors, employees, consultants and others expected to provide significant services to Acacia or its subsidiaries. The 1993 Plan covers an aggregate of 2,000,000 shares of common stock. We have reserved 2,000,000 shares of common stock in connection with the 1993 Plan. Under the terms of the 1993 Plan, options may be exercised upon terms approved by Acacia's board of directors and expire at a maximum of ten years from the date of grant. Incentive Stock Options are granted at prices equal to or greater than fair market value at the date of grant. Nonqualified Stock Options are generally granted at prices equal to or greater than 85% of the fair market value at the date of grant. All of the shares under the 1993 Plan have been awarded.

The Bonus Plan provided for a one-time grant of options to purchase an aggregate of 720,000 shares of our common stock to directors, officers and other key employees performing services for our affiliates and us. Under each option agreement of the Bonus Plan, 25% of the options become exercisable on each of the first four anniversaries of the grant date. The options granted under the Bonus Plan expire in March 2001. All of the shares under the Bonus Plan have been awarded.

In April 1996, the board of directors adopted the 1996 Plan, which was approved by the stockholders in May 1996. The 1996 Plan provides for the grant of Nonqualified Stock Options and Incentive Stock Options to key employees, including officers of Acacia and its subsidiaries and certain other individuals. The 1996 Plan also provides for the automatic grant of 20,000 shares of Nonqualified Stock Options to non-employee directors upon initial election to the board of directors and 2,000 shares thereafter on an annual basis under the Non-Employee Director Program. These options are generally exercisable six months to one year after grant and expire five years after grant for directors or up to ten years after grant for key employees. In May 1998, stockholders approved amendments to the 1996 Stock Option Plan, which increased the authorized number of shares of common stock subject to the amended plan by 500,000 shares. In May 1999, stockholders approved amendments to the 1996 Stock Option Plan, which increased the authorized number of shares of common stock subject to the amended plan by 2,000,000 shares. In May 2000, stockholders approved amendments to the 1996 Stock Option Plan, which increased the authorized number of shares of common stock subject to the amended plan by 1,000,000 shares. At the years ended December 31, 2001 and 2000, 482,000 and 1,129,000 shares were available for grant, respectively.

The following is a summary of common stock option activities:

	SHARES	EXERCISE PRICES	WEIGHTED AVERAGE PRICE
Balance at December 31, 1998	1,829,000	$ 0.91 - $ 7.85	$ 2.95
Options Granted	799,000	$ 3.89 - $21.59	$12.22
Options Exercised	(359,000)	$ 0.91 - $ 4.24	$ 2.11
Options Cancelled	(51,000)	$ 3.28 - $ 7.16	$ 4.72
Balance at December 31, 1999	2,218,000	$ 0.91 - $21.59	$ 6.38
Options Granted	2,709,000	$ 14.55 - $50.28	$27.90
Options Exercised	(585,000)	$ 2.39 - $14.55	$ 3.41
Options Cancelled	(717,000)	$ 1.82 - $46.79	$19.48
Balance at December 31, 2000	3,625,000	$ 2.77 - $50.28	$20.51
Options Granted	1,390,000	$ 5.65 - $16.08	$ 7.14
Options Exercised	(790,000)	$ 2.77 - $14.55	$ 3.48
Options Cancelled	(743,000)	$ 3.18 - $48.69	$30.48
Balance at December 31, 2001	3,482,000	$ 3.47 - $50.28	$16.94
Exercisable at December 31, 2000	1,181,000	$ 2.77 - $46.79	$ 7.48
Exercisable at December 31, 2001	1,315,000	$ 3.47 - $50.28	$18.47

10. STOCK OPTIONS AND WARRANTS

Options outstanding at year ended December 31, 2001 are summarized as follows:

NUMBER OF EXERCISE PRICES	NUMBER OF OUTSTANDING OPTIONS	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	OUTSTANDING WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE	EXERCISABLE WEIGHTED AVERAGE EXERCISE PRICE
$ 0.00 - $ 5.00.....	103,000	0.5	$ 3.54	103,000	$ 3.54
$ 5.01 - $10.00.....	1,354,000	8.6	$ 6.29	373,000	$ 6.13
$10.01 - $15.00.....	135,000	5.2	$12.72	27,000	$13.93
$15.01 - $20.00.....	179,000	8.8	$17.04	103,000	$17.28
$20.01 - $25.00.....	761,000	7.6	$22.07	260,000	$21.97
$25.01 - $30.00.....	615,000	7.5	$27.55	251,000	$27.61
$30.01 - $35.00.....	212,000	6.8	$30.17	126,000	$30.17
$35.01 - $40.00.....	--	--	$ --	--	$ --
$40.01 - $45.00.....	116,000	8.2	$41.96	68,000	$41.97
$45.01 - $52.00.....	7,000	8.2	$50.28	4,000	$50.28
	3,482,000			1,315,000	

At year ended December 31, 2001, the total number of warrants outstanding represent rights to purchase 960,000 and 1,240,000 shares of Acacia's common stock at a per share exercise price of $30.00 and $19.09, respectively. At December 31, 2000, the total number of warrants outstanding represent rights to purchase 960,000 shares of Acacia's common stock at a per share exercise price of $30.00.

We have adopted the disclosure only requirements of SFAS No. 123 with respect to options issued to employees. The weighted average fair value of options granted during 2001, 2000 and 1999 for which the exercise price equals the fair market price on the grant date was $4.19, $20.17 and $13.33, respectively. The weighted average fair value of options granted during 1999 for which the exercise price is less than fair market value on grant date was $16.70. There were no options granted during 2001 or 2000 with exercise price less than the market value.

As of December 31, 2001, CombiMatrix had a total of 3,534,000 shares of options and warrants outstanding, of which, 1,798,000 shares are exercisable. As of December 31, 2000, CombiMatrix had a total of 4,539,000 shares of options and warrants outstanding, of which 1,062,000 shares are exercisable. As of December 31, 1999, CombiMatrix had a total of 798,000 shares of options and warrants outstanding, of which 444,000 shares are exercisable.

Had we accounted for stock compensation expense related to stock options issued to employees in accordance with SFAS No. 123, our pro forma loss from continuing operations and loss per share would have been as follows:

	2001	2000	1999
Loss from continuing operations as reported.....	$(22,272,000)	$(29,159,000)	$(7,421,000)
Loss from continuing operations, pro forma.....	$(30,806,000)	$(37,671,000)	$(8,505,000)
Basic loss from per share from continuing operations as reported....	$ (1.16)	$ (1.78)	$ (0.59)
Basic loss from per share from continuing operations, pro forma.....	$ (1.60)	$ (2.31)	$ (0.67)
Diluted loss from per share from continuing operations as reported..	$ (1.16)	$ (1.78)	$ (0.59)
Diluted loss from per share from continuing operations, pro forma...	$ (1.60)	$ (2.31)	$ (0.67)

The fair value of the options was determined using the Black-Scholes option-pricing model, assuming weighted average risk free annual interest of 4.52%, 6.31% and 5.79% in 2001, 2000 and 1999, respectively, volatility of approximately 75%, with expected lives of approximately four years and no expected dividends.

11. DEFERRED NON-CASH STOCK COMPENSATION CHARGES

During the year ended December 31, 2000, our majority-owned subsidiary, CombiMatrix, recorded deferred non-cash stock compensation charges aggregating approximately $53.8 million in connection with the granting of stock options. Pursuant to Acacia's policy, the stock options were granted at exercise prices equal to the fair value of the underlying CombiMatrix stock on the date of grant as determined by Acacia. However, such exercise prices were subsequently determined to be below fair value due to a substantial step-up in the fair value of CombiMatrix pursuant to a valuation provided by an investment banker in contemplation of a potential CombiMatrix initial public offering in 2000. In connection with the proposed CombiMatrix initial public offering and pursuant to SEC rules and guidelines, we were required to reassess the value of stock options issued during the one-year period preceding the potential initial public offering and utilize the stepped-up fair value provided by the investment banker for purposes of determining whether such stock option issuances were compensatory, resulting in the calculation of the $53.8 million in deferred non-cash stock compensation charges in 2000. Deferred non-cash stock compensation charges are being amortized by CombiMatrix over the respective option grant vesting periods, which range from one to four years. The table below reflects the gross deferred non-cash stock compensation charges recorded by CombiMatrix related to stock option grants, the amortization of deferred non-cash stock compensation for 2001 and 2000, and the impact of certain other CombiMatrix stock option transactions during 2001, as follows:

Gross CombiMatrix deferred non-cash stock compensation charges	$ 53,773,000
Less amounts amortized to date and other items:	
Amortization through December 31, 2000	(9,709,000)
Deferred non-cash stock compensation charges related to 2001 stock option grants	729,000
Amortization for the year ended December 31, 2001 (net of $4,698,000 of amortization reversal related to forfeitures of certain unvested options and other)	(18,807,000)
Forfeitures of certain unvested options (results in a net reduction in deferred stock compensation to be amortized in future periods)	(13,220,000)
Remaining CombiMatrix deferred non-cash stock compensation as of December 31, 2001 to be amortized in subsequent periods	$ 12,766,000

During the third and fourth quarters of 2001, certain CombiMatrix unvested stock options were forfeited. Pursuant to the provisions of APB No. 25 and related interpretations, the reversal of previously recognized non-cash stock compensation expense on forfeited unvested stock options, in the amount of $4,698,000, has been reflected in the consolidated statements of operations and comprehensive loss as a reduction in 2001 non-cash stock compensation expense. In addition, the forfeiture of certain unvested options during 2001 results in a reduction of the remaining deferred non-cash stock compensation expense scheduled to be amortized in future periods.

The remaining deferred non-cash stock compensation balance as of December 31, 2001 related to stock options issued by CombiMatrix represents the future non-cash deferred stock compensation expense that will be reflected in our consolidated statements of operations and comprehensive loss as non-cash stock compensation charges over the next twelve quarters from January 1, 2002 through December 31, 2004 as follows:

YEAR	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	TOTAL
2002	$ 2,273,000	$ 2,311,000	$ 2,212,000	$ 1,276,000	$ 8,072,000
2003	1,036,000	1,041,000	997,000	510,000	3,584,000
2004	366,000	360,000	329,000	55,000	1,110,000
					$12,766,000

Non-cash deferred stock compensation expense scheduled to be recognized in future periods reflected above may be impacted by certain subsequent stock option transactions including modification of terms, cancellations, forfeitures and other activity.

12. COMMITMENTS AND CONTINGENCIES

SALE AND LEASEBACK ARRANGEMENT

In September 2001, CombiMatrix entered into a sale and leaseback arrangement with a bank, providing up to $7,000,000 in financing for equipment and other capital purchases. Pursuant to the terms of the agreement, certain equipment and leasehold improvements, totaling $2,557,000 in net book value were sold to the bank at a purchase price of $3,000,000, resulting in a deferred gain on the sale of assets of $443,000. The deferred gain is being amortized over 4 years, the term of the related lease arrangement. In addition, CombiMatrix entered into a capital lease arrangement to lease the fixed assets from the bank. The capital lease agreement provides CombiMatrix with the option to purchase the equipment for a nominal amount at the end of the lease term, which expires in September 2004.

Future minimum lease payments under scheduled capital leases that have initial or remaining non-cancelable terms in excess of one year are as follows:

YEAR	
2002	$ 1,141,000
2003	1,141,000
2004	855,000
Total minimum payments	3,137,000
Less: amount representing interest	(358,000)
Obligations under capital lease	2,779,000
Less: current portion	(934,000)
	$ 1,845,000

OPERATING LEASES

We lease certain office furniture and equipment and laboratory and office space under various operating lease agreements expiring over the next 7 years. Minimum annual rental commitments on operating leases of continuing operations having initial or remaining non-cancelable lease terms in excess of one year are as follows:

YEAR	
2002	$ 1,642,000
2003	1,894,000
2004	1,650,000
2005	1,721,000
2006	1,735,000
Thereafter	3,312,000
Total minimum lease payments	$11,954,000

Rent expenses of continuing operations at year ended December 31, 2001, 2000 and 1999 approximated $1,979,289, $1,032,000 and $431,000, respectively.

LITIGATION

On November 28, 2000, Nanogen, Inc. ("Nanogen") filed suit against CombiMatrix and one of its principal stockholders, who is also a member of CombiMatrix's board of directors. Nanogen alleges breach of contract, trade secret misappropriation and that United States Patent No. 6,093,302 and other proprietary information belonging to CombiMatrix are instead the property of Nanogen. The litigation is in early stages, and CombiMatrix cannot predict its outcome. While CombiMatrix believes it has strong defenses to Nanogen's claims, if Nanogen were to prevail in its suit against CombiMatrix and obtain the injunction and monetary relief that is being sought, CombiMatrix could incur significant financial liabilities that would materially affect our consolidated financial condition and results of operations.

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

13. SEGMENT INFORMATION

Acacia has two reportable segments as follows:

ACACIA MEDIA TECHNOLOGIES GROUP - Acacia Media Technologies Group owns intellectual property related to the telecommunications field, including a television blanking system, also known as the "V-chip," which it licenses to television manufacturers. In addition, our media technologies group owns a worldwide portfolio of pioneering patents relating to audio and video transmission and receiving systems, commonly known as audio-on-demand and video-on-demand, used for distributing content via various methods including computer networks, cable television systems and direct broadcasting satellite systems.

ACACIA LIFE SCIENCES GROUP - CombiMatrix is developing a proprietary biochip array processor system that integrates semiconductor technology with new developments in biotechnology and chemistry. Our majority-owned subsidiary, Advanced Material Sciences, holds the exclusive license for CombiMatrix's biological array processor technology in certain fields of material sciences.

We evaluate segment performances based on revenue earned and cost versus earnings potential of future completed products or services. Material intercompany transactions and transfers have been eliminated in consolidation. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Corporate and other includes corporate costs, certain assets and liabilities and other investment activities, which are included in our consolidated financial statements but are not allocated to the reportable segments.

The table below presents information about our reportable segments in continuing operations for the years ended December 31, 2001, 2000 and 1999:

2001	ACACIA MEDIA TECHNOLOGIES GROUP	ACACIA LIFE SCIENCES GROUP	CORPORATE AND OTHER	TOTAL
Revenue	$ 24,130,000	$ 456,000	$ 50,000	$ 24,636,000
Amortization of patents and goodwill	49,000	--	2,646,000	2,695,000
Other income	--	--	77,000	77,000
Interest income	137,000	2,120,000	1,505,000	3,762,000
Interest expense	--	65,000	--	65,000
Realized gains on investments	--	--	350,000	350,000
Unrealized gains on investments	--	--	237,000	237,000
Equity in losses of affiliate	--	--	195,000	195,000
Loss (income) from continuing operations before operations before minority interests and taxes	(12,311,000)	44,416,000	6,927,000	39,032,000
Non-cash stock compensation charges	--	19,963,000	856,000	20,819,000
Segment assets	10,339,000	40,161,000	56,168,000	106,668,000
Investments in affiliate, at cost	--	--	3,000,000	3,000,000
Purchase of property and equipment	7,000	3,756,000	12,000	3,775,000

2000	ACACIA MEDIA TECHNOLOGIES GROUP	ACACIA LIFE SCIENCES GROUP	CORPORATE AND OTHER	TOTAL
Revenue	$ --	$ 17,000	$ 40,000	$ 57,000
Amortization of patents and goodwill	15,000	--	2,236,000	2,251,000
Other income	--	--	28,000	28,000
Interest income	--	1,661,000	1,425,000	3,086,000
Equity in losses of affiliates	--	--	1,746,000	1,746,000
Loss from continuing operations before minority interests and taxes	335,000	19,045,000	19,018,000	38,398,000
Non-cash stock compensation charges	--	10,205,000	499,000	10,704,000
Segment assets	146,000	52,173,000	39,121,000	91,440,000
Investments in affiliates, at equity	--	--	346,000	346,000
Investments in affiliate, at cost	--	--	3,000,000	3,000,000
Purchase of property and equipment	13,000	2,921,000	459,000	3,393,000

1999	ACACIA MEDIA TECHNOLOGIES GROUP	ACACIA LIFE SCIENCES GROUP	CORPORATE AND OTHER	TOTAL
Revenue	$ --	$ 144,000	$ 122,000	$ 266,000
Amortization of patents and goodwill	14,000	--	1,608,000	1,622,000
Interest income	--	40,000	293,000	333,000
Interest expense	--	253,000	1,000	254,000
Equity in losses of affiliates	--	--	1,121,000	1,121,000
Loss from continuing operations before minority interests and taxes	240,000	2,507,000	5,875,000	8,622,000
Non-cash stock compensation charges	--	19,000	127,000	146,000
Segment assets	150,000	1,908,000	43,396,000	45,454,000
Investments in affiliates, at equity	--	--	4,636,000	4,636,000
Purchase of property and equipment	--	85,000	156,000	241,000

Segment information has been restated to exclude Soundbreak.com for the years ended December 31, 2001, 2000 and 1999. See Note 9 to consolidated financial statements.

14. SUBSEQUENT EVENTS

In February 2002, CombiMatrix, a majority-owned subsidiary, was awarded a Phase I National Institutes of Health grant for the development of its protein biochip technology. The title of the grant is "Self-Assembling Protein Microchips." This grant is in addition to a three-year Phase I and a Phase II SBIR Grant from the U.S. Department of Defense for the development of multiplexed chip based assays for chemical and biological warfare agent detection.

In February 2002, in conjunction with the relocation of our corporate headquarters, we entered into a non-cancelable lease agreement to lease approximately 7,143 square feet of office space in Newport Beach, California through February 2007. Minimum annual rental commitments under this operating lease are $255,000 in 2002; $286,000 in 2003; $295,000 in 2004; $303,000 in 2005; $312,000 in 2006; and $39,000, thereafter.

In February 2002, we executed a sublease agreement, expiring in November 2003, to sublet the Pasadena, California office space. In 2002 and 2003, rent expense will be offset by $142,399 and $154,418 respectively, related to rental payments due pursuant to the terms of the sublease agreement.

On March 20, 2002, we announced that our board of directors approved a plan to divide our common stock into two new classes - new "CombiMatrix" common stock, that would reflect the performance of our CombiMatrix subsidiary, and new "Acacia Technologies" common stock, that would reflect the performance of our media technology businesses, including Soundview Technologies and Acacia Media Technologies. The plan will be submitted to our stockholders for approval. If the recapitalization proposal were approved, our stockholders would receive shares of both of the new classes of stock in exchange for existing Acacia shares. The new share classes would be separately listed on the NASDAQ National Market System.

We also announced that our board of directors and CombiMatrix's board of directors have approved an agreement for Acacia to acquire the minority stockholder interests in CombiMatrix. The proposed acquisition would be accomplished through a merger in which the minority stockholders of CombiMatrix would receive shares of the new "CombiMatrix" common stock, in exchange for their existing shares. The proposed transaction will be submitted to the stockholders of Acacia and CombiMatrix for approval.

The proposed recapitalization and merger are subject to several important conditions, including receipt of stockholder approval, receipt of satisfactory tax and accounting opinions, approval of the proposed merger by a special committee of the CombiMatrix board of directors, receipt of a fairness opinion, approval for listing of both of the new shares on the NASDAQ National Market System and other customary conditions. We expect to present these proposals to our stockholders for approval at a special meeting.

15. SUPPLEMENT CASH FLOW INFORMATION

	FOR THE YEARS ENDED DECEMBER 31,		
	2001	2000	1999
Supplemental disclosures of cash flow information:			
Cash paid for interest	$ 42	$ 79	$ 78
Cash paid for income taxes	597	--	7
Supplemental schedule of non-cash investing and financing activities:			
Issuance of common stock for additional equity in consolidated subsidiary and affiliates	--	11,634	288
Liabilities assumed in acquisition of minority ownership interest in subsidiary	200	--	--
Increase in minority interests due to conversion of subsidiary notes payable	--	--	1,400
Fixed assets purchased with accounts payable	--	917	--
Purchase of equipment under capital lease agreement	(3,000)	--	--
Capital lease obligation incurred	3,000	--	--
Accrued payments for purchase of common stock from former minority stockholders of subsidiary	217	--	--

16. QUARTERLY FINANCIAL DATA (UNAUDITED)

The following table sets forth unaudited consolidated statement of operations data for the eight quarters in the period ended December 31, 2001. This information has been derived from our unaudited condensed consolidated financial statements that have been prepared on the same basis as the audited consolidated financial statements and, in the opinion of management, include all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the information when read in conjunction with the audited consolidated financial statements and related notes thereto. Our quarterly results have been in the past and may in the future be subject to significant fluctuations. As a result, we believe that results of operations for interim periods should not be relied upon as any indication of the results to be expected in any future periods.

	QUARTER ENDED							
	MAR. 31, 2001	JUN. 30, 2001	SEP. 30, 2001	DEC. 31, 2001	MAR. 31, 2000	JUN. 30, 2000	SEP. 30, 2000	DEC. 31, 2000
	(IN THOUSANDS, EXCEPT SHARE AND PER SHARE INFORMATION)							
Revenues:								
License fee income	$ 2,440	$ 10,000	$ 10,740	$ 1,000	$ --	$	$ --	$ --
Grant revenue	183	91	91	91	17	--	--	--
Other income	--	--	--	--	--	22	18	--
Total revenues	2,623	10,091	10,831	1,091	17	22	18	--
Operating expenses	18,424	20,028	18,527	10,855	3,250	4,150	11,881	17,939
Operating loss	(15,801)	(9,937)	(7,696)	(9,764)	(3,233)	(4,128)	(11,863)	(17,939)
Other income (expense)	1,144	1,031	796	1,195	99	21	457	(1,812)
Loss from continuing operations before income taxes and minority interests	(14,657)	(8,906)	(6,900)	(8,569)	(3,134)	(4,107)	(11,406)	(19,751)
(Provision) benefit for income taxes	(13)	(228)	(778)	239	(5)	(2)	38	42
Loss from continuing operations before minority interests	(14,670)	(9,134)	(7,678)	(8,330)	(3,139)	(4,109)	(11,368)	(19,709)
Minority interests	5,191	4,362	4,851	3,136	461	659	2,528	5,518
Loss from continuing operations	(9,479)	(4,772)	(2,827)	(5,194)	(2,678)	(3,450)	(8,840)	(14,191)
Loss from discontinued operations	--	--	--	--	(884)	(2,787)	(2,057)	(3,826)
Loss before cumulative effect of change in accounting principle	(9,479)	(4,772)	(2,827)	(5,194)	(3,562)	(6,237)	(10,897)	(18,017)
Cumulative effect of change in accounting principle due to beneficial conversion feature	--	--	--	--	(246)	--	--	--
Net loss	$ (9,479)	$ (4,772)	$ (2,827)	$ (5,194)	$ (3,808)	$ (6,237)	$ (10,897)	$ (18,017)
Loss per common share:								
Basic								
Loss from continuing operations	$ (0.50)	$ (0.25)	$ (0.15)	$ (0.27)	$ (0.17)	$ (0.21)	$ (0.51)	$ (0.80)
Loss from discontinued operations	$ --	$ --	$ --	$ --	$ (0.06)	$ (0.17)	$ (0.12)	$ (0.21)
Cumulative effect of change in accounting principle	$ --	$ --	$ --	$ --	$ (0.02)	$ --	$ --	$ --
Net loss	$ (0.50)	$ (0.25)	$ (0.15)	$ (0.27)	$ (0.25)	$ (0.38)	$ (0.63)	$ (1.01)
Diluted								
Loss from continuing operations	$ (0.50)	$ (0.25)	$ (0.15)	$ (0.27)	$ (0.17)	$ (0.21)	$ (0.51)	$ (0.80)
Loss from discontinued operations	$ --	$ --	$ --	$ --	$ (0.06)	$ (0.17)	$ (0.12)	$ (0.21)
Cumulative effect of change in accounting principle	$ --	$ --	$ --	$ --	$ (0.02)	$ --	$ --	$ --
Net loss	$ (0.50)	$ (0.25)	$ (0.15)	$ (0.27)	$ (0.25)	$ (0.38)	$ (0.63)	$ (1.01)
Weighted average number of common and potential shares outstanding used in computation of loss per share:								
Basic	18,985,864	19,503,645	19,525,807	19,558,572	15,630,070	16,292,859	17,502,640	17,840,672
Diluted	18,985,864	19,503,645	19,525,807	19,558,572	15,630,070	16,292,859	17,502,640	17,840,672
Market price per share:								
High	$ 18.98	$ 16.14	$ 16.66	$ 13.42	$ 53.64	$ 39.09	$ 32.05	$ 33.81
Low	$ 5.23	$ 4.69	$ 5.83	$ 8.29	$ 26.82	$ 12.16	$ 19.89	$ 12.50

EXHIBIT INDEX

2.1	Agreement and Plan of Merger of Acacia Research Corporation, a California corporation, and Acacia Research Corporation, a Delaware corporation, dated as of December 23, 1999 (1)
3.1	Certificate of Incorporation (2)
3.2	Amended and Restated Bylaws (3)
4.2	Form of Specimen Certificate of Acacia's Common Stock (4)
10.1	Lease Agreement dated April 30, 1998, between Acacia and EOP-Pasadena Towers, L.L.C., a Delaware limited liability company doing business as EOP-Pasadena, LLC (5)
10.2	Lease Agreement between Soundbreak.com Incorporated and 8730 Sunset Towers and related Guaranty (6)
10.3	1993 Stock Option Plan (7)
10.4	Form of Stock Option Agreement for 1993 Stock Option Plan (7)
10.5	1996 Stock Option Plan (8)
10.6	Form of Option Agreement constituting the 1996 Executive Stock Bonus Plan (9)
10.7	Agreement between Acacia Research and Paul Ryan (10)
10.8	First Amendment dated June 26, 2000, to Lease Agreement between Acacia and Pasadena Towers, L.L.C.
10.9*	Research & Development Agreement dated as of June 18, 2001, between CombiMatrix Corporation and Roche Diagnostics GmbH (3)
10.10*	License and Supply Agreement dated as of July 1, 2001, between CombiMatrix Corporation and Roche Diagnostics GmbH (3)
10.11	Sublease dated November 30, 2001, between Acacia and Jenkens & Gilchrist
10.12	Lease Agreement dated January 28, 2002, between Acacia and The Irvine Company
18.1	Preferability letter from PricewaterhouseCoopers LLP, dated as of March 31, 2002, regarding change in accounting policy
21	List of Subsidiaries
23.1	Consent of PricewaterhouseCoopers LLP

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* Confidential treatment for portions of these exhibits granted pursuant to an Order Granting Confidential Treatment under the Securities Exchange Act of 1934, issued on November 9, 2001, by the United States Securities and Exchange Commission.

(1)	Incorporated by reference from Acacia's Report on Form 8-K filed on December 30, 1999 (SEC File No. 000-26068).
(2)	Incorporated by reference as Appendix A to the Definitive Proxy Statement on Schedule 14A filed on November 2, 1999 (SEC File No. 000-26068) and to the Definitive Proxy Statement on Schedule 14A filed on April 10, 2000 (SEC File No. 000-26068).
(3)	Incorporated by reference from Acacia's Quarterly Report on Form 10-Q filed on August 10, 2001 (SEC File No. 000-26068).
(4)	Incorporated by reference from Amendment No. 2 on Form 8-A/A filed on December 30, 1999 (SEC File No. 000-26068).
(5)	Incorporated by reference from Acacia's Quarterly Report on Form 10-Q filed on August 14, 1998. (SEC File No. 000-26068).
(6)	Incorporated by reference from Acacia's Quarterly Report on Form 10-Q filed on November 15, 1999. (SEC File No. 000-26068).
(7)	Incorporated by reference from Acacia's Registration Statement on Form SB-2 (33-87368-L.A.), which became effective under the Securities Act of 1933, as amended, on June 15, 1995.
(8)	Incorporated by reference as Appendix A to the Definitive Proxy Statement on Schedule 14A filed on April 10, 2000 (SEC File No. 000-26068).
(9)	Incorporated by reference from Acacia's Definitive Proxy as Appendix A Statement on Schedule 14A filed on April 26, 1996 (SEC File No. 000-26068).
(10)	Incorporate by reference from Acacia's Annual Report on Form 10-K for the year ended December 31, 1997 filed on March 30, 1998 (SEC File No. 000-26068).

EXHIBIT 10.8
FIRST AMENDMENT

FIRST AMENDMENT

THIS FIRST AMENDMENT (this "Amendment") is made and entered into as of the 26th day of June, 2000, by and between PASADENA TOWERS, L.L.C., A DELAWARE LIMITED LIABILITY COMPANY ("Landlord"), and ACACIA RESEARCH CORPORATION, A CALIFORNIA CORPORATION ("Tenant").

W I T N E S S E T H:

A. WHEREAS, Landlord and Tenant are parties to that certain lease dated the 30th day of April, 1998, for space currently containing approximately 5,449 rentable square feet (the "Original Premises") described as Suite No. 650 on the 6th floor of the building commonly known as Pasadena Towers II and the address of which is 55 South Lake Avenue, Pasadena California (the "Building") (the "Lease"); and

B. WHEREAS, Tenant has requested that additional space containing approximately 1,570 rentable square feet described as Suite No. 660 on the 6th floor of the Building shown on Exhibit A hereto (the "Expansion Space") be added to the Original Premises and that the Lease be appropriately amended and Landlord is willing to do the same on the terms and conditions hereinafter set forth;

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Landlord and Tenant agree as follows:

I. EXPANSION AND EFFECTIVE DATE. Effective as of the Expansion Effective Date (as hereinafter defined), the Premises, as defined in the Lease, is increased from 5,449 rentable square feet on the 6th floor to 7,019 rentable square feet on the 6th floor(s) by the addition of the Expansion Space, and from and after the Expansion Effective Date, the Original Premises and the Expansion Space, collectively, shall be deemed the Premises, as defined in the Lease. The Term for the Expansion Space shall commence on the Expansion Effective Date and end on the Termination Date. The Expansion Space is subject to all the terms and conditions of the Lease except as expressly modified herein and except that Tenant shall not be entitled to receive any allowances, abatements or other financial concessions granted with respect to the Original Premises unless such concessions are expressly provided for herein with respect to the Expansion Space.

A. The Expansion Effective Date shall be the date which is 60 days after the date Landlord delivers the Expansion Space to Tenant, which date is anticipated to be September 1, 2000 (the "Target Expansion Effective Date").

B. The Expansion Effective Date shall be delayed to the extent that Landlord fails to deliver possession of the Expansion Space for any reason, including but not limited to, holding over by prior occupants. Any such delay in the Expansion Effective Date shall not subject Landlord to any liability for any loss or damage resulting therefrom. If the Expansion Effective Date is delayed, the Termination Date under the Lease shall not be similarly extended.

II. MONTHLY BASE RENTAL.

In addition to Tenant's obligation to pay Base Rental for the Original Premises, Tenant shall pay Landlord the sum of $147,187.50 as Base Rental for the Expansion Space in 39 monthly installments as follows:

A. 18 equal installments of $3,689.50 each payable on or before the first day of each month during the period beginning September 1, 2000 and ending February 28, 2002.

B. 21 equal installments of $3,846.50 each payable on or before the first day of each month during the period beginning March 1, 2002 and ending November 30, 2003.

All such Base Rental shall be payable by Tenant in accordance with the terms of Article IV of the Lease.

Landlord and Tenant acknowledge that the foregoing schedule is based on the assumption that the Expansion Effective Date is the Target Expansion Effective Date. If the Expansion Effective Date is other than the Target Expansion Effective Date, the schedule set forth above with respect to the payment of any installment(s) of Base Rental for the Expansion Space shall be appropriately adjusted on a per diem basis to reflect the actual Expansion Effective Date and the actual Expansion Effective Date shall be set forth in a confirmation letter to be prepared by Landlord. However, the effective date of any increases or decreases in the Base Rental rate shall not be postponed as a result of an adjustment of the Expansion Effective Date as provided above.

III. ADDITIONAL SECURITY DEPOSIT. Upon Tenant's execution hereof, Tenant shall pay Landlord the sum of $3,689.50 which is added to and becomes part of the Security Deposit, if any, held by Landlord as provided under the Lease as security for payment of Rent and the performance of the other terms and conditions of the Lease by Tenant. Accordingly, simultaneous with the execution hereof, the Security Deposit is increased from $13,186.58 to $16,876.08.

IV. TENANT'S PRO RATA SHARE. For the period commencing with the Expansion Effective Date and ending on the Termination Date, Tenant's Pro Rata Share for the Expansion Space is 0.7539%.

V. BASIC COSTS. For the period commencing with the Expansion Effective Date and ending on the Termination Date, Tenant shall pay for Tenant's Pro Rata Share of Basic Costs applicable to the Expansion Space in accordance with the terms of the Lease, provided, however, during such period, the Base Year for the computation of Tenant's Pro Rata Share of Basic Costs applicable to the Expansion Space is 2000.

VI. IMPROVEMENTS TO EXPANSION SPACE.

A. CONDITION OF EXPANSION SPACE. Tenant has inspected the Expansion Space and agrees to accept the same "as is" without any agreements, representations, understandings or obligations

on the part of Landlord to perform any alterations, repairs or improvements, except as may be expressly provided otherwise in this Amendment. Landlord and Tenant hereby acknowledge that the Expansion Space is currently, as of the date hereof, portion of a larger suite from which the Expansion Space shall be demised. Landlord, at Landlord's sole cost and expense, shall (i) construct 1 demising wall within the Expansion Space, (ii) perform all work deemed reasonably necessary by Landlord in connection with improvements to the adjacent corridor in connection with the demising of the Expansion Space, (iii) relocate existing electrical service panels as Landlord deems reasonably necessary in connection with the demising of the Expansion Space, and (iv) separate electrical circuits and HVAC systems, without cross-zoning, as Landlord deems reasonably necessary in connection with the demising of the Expansion Space. All other work to be performed in connection with the demising of the Expansion Space shall be performed by Tenant pursuant to the terms of this Article VI.

B. COST OF IMPROVEMENTS TO EXPANSION SPACE. Provided Tenant is not in default, Tenant shall be entitled to receive an improvement allowance (the "Expansion Improvement Allowance") in an amount not to exceed $18,840.00 (i.e., $12.00 per rentable square foot of the Expansion Space) to be applied toward the cost of performing initial construction, alteration or improvement of the Expansion Space, including but not limited to the cost of space planning, design and related architectural and engineering services. In the event the total cost of the initial improvements to the Expansion Space exceeds the Expansion Improvement Allowance, Tenant shall pay for such excess upon demand. The entire unused balance of the Expansion Improvement Allowance, if any, shall accrue to the sole benefit of Landlord. Landlord shall pay such Expansion Improvement Allowance directly to the contractors retained to perform the construction, design or related improvement work to the Expansion Space. Landlord shall be entitled to deduct from the Expansion Improvement Allowance a management administration fee in connection with the initial improvements to the Expansion Space in an amount equal to 3% of the total hard construction costs of such improvements.

C. RESPONSIBILITY FOR IMPROVEMENTS TO EXPANSION SPACE. Any construction, alterations or improvements to the Premises shall be performed by Tenant using contractors selected by Tenant and approved by Landlord and shall be governed in all respects by the provisions of Article X of the Lease; provided that Tenant shall use the subcontractors designated by Landlord in connection therewith.

VII. EARLY ACCESS TO EXPANSION SPACE. During any period that Tenant shall be permitted to enter the Expansion Space prior to the Expansion Effective Date (e.g., to perform alterations or improvements, if any), Tenant shall comply with all terms and provisions of the Lease, except those provisions requiring payment of Base Rental or Additional Base Rental as to the Expansion Space. If Tenant takes possession of the Expansion Space prior to the Expansion Effective Date for any reason whatsoever (other than the performance of work in the Expansion Space with Landlord's prior approval), such possession shall be subject to all the terms and conditions of the Lease and this Amendment, and Tenant shall pay Base Rental and Additional Base Rental as applicable to the Expansion Space to Landlord on a per diem basis for each day of occupancy prior to the Expansion Effective Date.

VIII. OTHER PERTINENT PROVISIONS. Landlord and Tenant agree that, effective as of the date hereof (unless different effective date(s) is/are specifically referenced in this Section), the Lease shall be amended in the following additional respects:

A. Notwithstanding anything to the contrary set forth in the Lease, as of the date of this Amendment, any notices to Landlord must be sent, transmitted, or delivered, as the case may be, to the following addresses:

Landlord:	With a copy to:
PASADENA TOWERS, L.L.C., A DELAWARE LIMITED LIABILITY COMPANY c/o Equity Office Properties Trust Two North Riverside Plaza, Suite 2200 Chicago, Illinois 60606 Attention: Regional Counsel-Pacific Region	PASADENA TOWERS, L.L.C., A DELAWARE LIMITED LIABILITY COMPANY c/o EOPMC of California, Inc. Office of the Building Pasadena Towers 800 East Colorado Boulevard Suite 470 Pasadena, California 91101 Attention: Building Manager

Rent (defined in Section IV.A) is payable to the order of PASADENA TOWERS, L.L.C. at the following address: FILE #56184, LOS ANGELES, CALIFORNIA 90074-6184.

B. Commencing on the Expansion Effective Date and ending on the Termination Date, without reducing the number of parking passes made available to Tenant with respect to the Original Premises as provided in Exhibit F to the Lease, Tenant shall have the right to rent up to 4 unreserved parking passes in the Building parking structure in connection with Tenant's lease of the Expansion Space, in accordance with the terms of Exhibit F to the Lease. Tenant shall pay Landlord the prevailing monthly charges established from time to time for parking in the Building parking structure, payable in advance, with Tenant's payment of monthly Base Rental, which rates are currently, as of the date of this Amendment, $65.00 per month for each unreserved parking pass.

C. Tenant shall also be entitled to 1 line on the building directory for each 1,000 rentable square feet of the Expansion Space. Tenant shall not be charged a fee for the initial installation of any names on the Building directory. Tenant shall, however, be required to pay Landlord's then standard fee for any additional names to be added to the Building directory or any replacement of previously existing names.

IX. MISCELLANEOUS.

A. This Amendment sets forth the entire agreement between the parties with respect to the matters set forth herein. There have been no additional oral or written representations or agreements. Under no circumstances shall Tenant be entitled to any Rent abatement, improvement allowance, leasehold improvements, or other work to the Premises, or any similar economic incentives that may have been provided Tenant in connection with entering into the Lease, unless specifically set forth in this Amendment.

B. Except as herein modified or amended, the provisions, conditions and terms of the Lease shall remain unchanged and in full force and effect.

C. In the case of any inconsistency between the provisions of the Lease and this Amendment, the provisions of this Amendment shall govern and control.

D. Submission of this Amendment by Landlord is not an offer to enter into this Amendment but rather is a solicitation for such an offer by Tenant. Landlord shall not be bound by this Amendment until Landlord has executed and delivered the same to Tenant.

E. The capitalized terms used in this Amendment shall have the same definitions as set forth in the Lease to the extent that such capitalized terms are defined therein and not redefined in this Amendment.

F. Tenant hereby represents to Landlord that Tenant has dealt with no broker in connection with this Amendment other than Travers Realty (the "Broker"). Tenant agrees to indemnify and hold Landlord, its members, principals, beneficiaries, partners, officers, directors, employees, mortgagee(s) and agents, and the respective principals and members of any such agents (collectively, the "Landlord Related Parties") harmless from all claims of any brokers other than Broker claiming to have represented Tenant in connection with this Amendment. Landlord hereby represents to Tenant that Landlord has dealt with no broker in connection with this Amendment. Landlord agrees to indemnify and hold Tenant, its members, principals, beneficiaries, partners, officers, directors, employees, and agents, and the respective principals and members of any such agents (collectively, the "Tenant Related Parties") harmless from all claims of any brokers claiming to have represented Landlord in connection with this Amendment.

IN WITNESS WHEREOF, Landlord and Tenant have duly executed this Amendment as of the day and year first above written.

LANDLORD:

PASADENA TOWERS, L.L.C.,
A DELAWARE LIMITED LIABILITY COMPANY

By: EOP-Pasadena Towers, L.L.C., a Delaware limited liability company, its administrative managing member

By: EOP Operating Limited Partnership, a Delaware limited partnership, its sole member

By: Equity Office Properties Trust, a Maryland real estate investment trust, its managing general partner

By: /s/ Robert E. Dezzutti

Name: Robert E. Dezzutti

Title: Vice President

TENANT:

ACACIA RESEARCH CORPORATION,
A CALIFORNIA CORPORATION

By: /s/ Peter Frank

Name: Peter Frank

Title: COO & CFO

By:

Name:

Title:

EXHIBIT A

Attach Floor Plan

Showing Expansion Space

EXHIBIT 10.11
SUBLEASE

STANDARD FORM

SUBLEASE

This Sublease is made as of the 30th day of November, 2001, by and between Acacia Research Corporation, a California corporation (hereinafter referred to as "Sublandlord") and Jenkens & Gilchrist, a Texas Professional Corporation (hereinafter collectively referred to as "Subtenant") with regard to the following facts.

R E C I T A L S :

A. Sublandlord is the tenant under that certain Office Lease (the "Lease"), dated as of April 30, 1998, as amended by a Parking Agreement dated April 30, 1998, and a First Amendment dated June 26, 2000 (the "First Amendment") (collectively, the "Master Lease") with EOP-Pasadena Towers, L.L.C., a Delaware limited liability company (the "Landlord") (a copy of which Master Lease is attached hereto as Exhibit A and by this reference made a part hereof) concerning approximately 7,019 rentable square feet of office space (the "Premises") located on the 6th floor of the building (the "Building") located at 55 S. Lake Avenue, Pasadena, California.

B. Subtenant desires to sublease the entire Premises from Sublandlord, and Sublandlord has agreed to sublease the Premises to Subtenant upon the terms, covenants and conditions herein set forth. The term "Premises" as used in this Sublease shall also mean the "Subleased Premises," and vice versa.

AGREEMENT

In consideration of the mutual covenants contained herein, the sufficiency of which is hereby acknowledged, the parties hereto agree as follows.

1. SUBLEASE. Sublandlord hereby subleases and demises to Subtenant and Subtenant hereby hires and takes from Sublandlord the Premises.

2. TERM. The term of this Sublease shall commence on February 15, 2002 ("Commencement Date") and shall end, unless sooner terminated as provided in the Master Lease on November 30, 2003.

3. RENT. Subtenant shall pay base rent during the term of this Sublease in the amount of $14,038.00 per month, payable monthly in advance on the first day of each month. Furthermore, in the event that the term of this Sublease shall begin or end on a date which is not the first day of a month, base rent shall be prorated as of such date. Concurrent with Subtenant's execution of this Sublease, Subtenant shall deliver to Sublandlord the first month's base rent in the amount of $14,038.00. Subtenant shall also, prior to the Commencement Date, pay to Sublandlord an amount equal to the Security Deposit which is currently being held by Landlord pursuant to the terms of Section VI, Page 15 of the Lease, and Section III, page 2 of the First Amendment (such amount being

$16,876.08), and Sublandlord hereby assigns to Subtenant all of Sublandlord's rights and interest in such Security Deposit. Sublandlord shall credit Subtenant with $5,000.00 toward its rent obligation due month 2 of the Sublease Term (being the month of March 2002) in lieu of shampooing carpet and painting walls.

4. TAX AND EXPENSE INCREASES. In addition to the rent set forth in Section 3, Subtenant shall pay to Sublandlord, as additional rent, (a) an amount equal to Tenant's Pro Rata Share of the increase in Taxes for any calendar year in excess of the Taxes for the Base Year, and (b) an amount equal to Tenant's Pro Rata Share of the increase in Expenses for any calendar year in excess of Expenses for the Base Year, to the extent such Taxes and Expenses for any such calendar year arise or accrue during the term of this Sublease. Defined terms used in this Section 4 shall have the same meaning as set forth in the Master Lease, except that the term "Base Year" shall mean the calendar year 2001. Such additional rent shall be paid by Subtenant concurrently with the base rent and may be estimated by Sublandlord, consistent with the estimates of Additional Base Rental under the Master Lease provided by Landlord, with a reconciliation made at such time as the reconciliation is made under the Master Lease.

5. USE. Subtenant covenants and agrees to use the Premises in accordance with the provisions of the Master Lease and for no other purpose and otherwise in accordance with the terms and conditions of the Master Lease and this Sublease.

6. MASTER LEASE. As applied to this Sublease, the words "Landlord" and "Tenant" as used in the Master Lease shall be deemed to refer to Sublandlord and Subtenant hereunder, respectively. Subtenant and this Sublease shall be subject in all respects to the terms of, and the rights of the Landlord under, the Master Lease. Except as otherwise expressly provided in Section 8 hereof, the covenants, agreements, terms, provisions and conditions of the Master Lease insofar as they relate to the Subleased Premises and insofar as they are not inconsistent with the terms of this Sublease are made a part of and incorporated into this Sublease as if recited herein in full, and the rights and obligations of the Landlord and the Tenant under the Master Lease shall be deemed the rights and obligations of Sublandlord and Subtenant respectively hereunder and shall be binding upon and inure to the benefit of Sublandlord and Subtenant respectively. As between the parties hereto only, in the event of a conflict between the terms of the Master Lease and the terms of this Sublease, the terms of this Sublease shall control.

7. LANDLORD'S PERFORMANCE UNDER MASTER LEASE.

7.1 Subtenant recognizes that Sublandlord is not in a position to render any of the services or to perform certain obligations which relate to the Premises required of Sublandlord by the terms of this Sublease. Therefore, notwithstanding anything to the contrary contained in this Sublease, Subtenant agrees that performance by Sublandlord of its obligations hereunder, to the extent that performance is beyond Sublandlord's control and within the control of Landlord, are conditional upon due performance by the Landlord of its corresponding obligations under the Master Lease and Sublandlord shall not be liable to Subtenant for any default of the Landlord under the Master Lease. Subtenant shall not have any claim against Sublandlord by reason of the Landlord's failure or refusal to comply with any of the provisions of the Master Lease unless such failure or refusal is a result of Sublandlord's act or failure to act. This Sublease shall remain in full force and effect notwithstanding the

Landlord's failure or refusal to comply with any such provisions of the Master Lease and Subtenant shall pay the base rent and additional rent and all other charges provided for herein without any abatement, deduction or setoff whatsoever. Notwithstanding the foregoing, should the Landlord's failure or refusal to comply with any provisions of the Master Lease give rise to the right of Sublandlord to terminate the Master Lease (which right will not be exercised without the consent of Subtenant), or to have the rent abated thereunder, then, as applicable, Subtenant shall concurrently terminate the Sublease, or Subtenant shall have its rent under the Sublease abated in the same proportion as Sublandlord's rent is abated under the Master Lease. Subtenant covenants and warrants that it fully understands and agrees to be subject to and bound by all of the covenants, agreements, terms, provisions and conditions of the Master Lease, except as otherwise set forth herein. Furthermore, Subtenant and Sublandlord further covenant not to take any action or do or perform any act or fail to perform any act which would result in the failure or breach of any of the covenants, agreements, terms, provisions or conditions of the Master Lease on the part of the Tenant thereunder.

7.2 Whenever the consent of Landlord shall be required by, or Landlord shall fail to perform its obligations under, the Master Lease, Sublandlord agrees to use its commercially reasonable efforts to obtain, at Subtenant's sole cost and expense, such consent and/or performance on behalf of Subtenant.

7.3 Sublandlord represents and warrants to Subtenant that the Master Lease is in full force and effect, and that it has not been amended or modified except as described in the recitals and First Amendment, all obligations of both Landlord and Sublandlord thereunder have been satisfied and Sublandlord has neither given nor received a notice of default pursuant to the Master Lease.

7.4 Sublandlord covenants as follows: (i) not to voluntarily terminate the Master Lease and not to take any actions (or fail to take any actions) which would constitute a default under the Master Lease, (ii) not to modify the Master Lease so as to adversely affect Subtenant's rights hereunder, and (iii) to take all actions reasonably necessary to preserve the Master Lease, including but not limited to, the payment of rent and other sums due to Landlord thereunder, except to the extent that Subtenant pays same directly to Landlord.

7.5 It is understood and agreed that Subtenant's only monetary obligations under this Sublease are to pay (i) base rent described in Section 3 above, (ii) additional rent described in Section 4 above, and (iii) all other amounts payable under the Master Lease (except for "Base Rental" payable under the Master Lease, and Tenant's Pro Rata Share of the increases in Taxes and Expenses payable under the Master Lease which are in excess of the amounts payable by Subtenant pursuant to Section 4 above) which arise or accrue during the term of this Sublease, including, but not limited to, parking charges.

8. VARIATIONS FROM MASTER LEASE. The following covenants, agreements, terms, provisions and conditions of the Master Lease are hereby modified or not incorporated herein:

8.1 Notwithstanding anything to the contrary set forth in Sections I, IV, and VI of the Lease, as amended by the First Amendment, the term of this Sublease, the base rent payable under Section 3 of this Sublease, Tenant's Pro Rata Share of increases in Taxes and Expenses payable under Section

4 of this Sublease, and the amount of the Security Deposit required of Subtenant shall be as set forth in this Sublease and not in the Master Lease.

8.2 The parties hereto represent and warrant to each other that neither party dealt with any broker or finder in connection with the consummation of this Sublease except for Staubach-Los Angeles, Inc., on behalf of Sublandlord and Insignia/E.S.G. and Staubach-Los Angeles, Inc., as cooperating brokers on behalf of Subtenant. Each party agrees to indemnify, hold and save the other party harmless from and against any and all claims for brokerage commissions or finder's fees arising out of either of their acts in connection with this Sublease. The provisions of this Section 8.2 shall survive the expiration or earlier termination of this Sublease. The commission to Staubach-Los Angeles, Inc. and Insignia/E.S.G. has been memorialized in a separate agreement.

8.3 Notwithstanding anything contained in the Master Lease to the contrary, as between Sublandlord and Subtenant only, all insurance proceeds or condemnation awards received by Sublandlord under the Master Lease shall be deemed to be the property of Sublandlord, but nothing herein shall prohibit Subtenant from recovery of any such insurance proceeds or condemnation awards which are specifically for Subtenant's personal property.

8.4 Any notice which may or shall be given by either party hereunder shall be either delivered personally or sent by nationally recognized overnight courier or certified mail, return receipt requested, addressed to the party for whom it is intended (i) (on and after the Commencement Date) at the Subleased Premises and (at any time) to Jenkens & Gilchrist, 1445 Ross Avenue, Suite 3200, Dallas, Texas 75202-2799 Attn: Roger L. Hayse (if to the Subtenant), or (ii) (prior to the Commencement Date) at the Subleased Premises, and (at any time) to Acacia Research Corporation, c/o Allen Matkins Leck Gamble & Mallory LLP, 1901 Avenue of the Stars, Suite 1800, Los Angeles, California 90067 Attn: Mark Kelson, Esq. (if to the Sublandlord), or to such other address or to such additional addressees, as may be designated in a notice given in accordance with the provisions of this Section 8.4.

8.5 All amounts payable hereunder by Subtenant shall be payable directly to Sublandlord, and Sublandlord shall represent and warrant to pay its rental obligation to Landlord on a timely basis.

8.6 Sublandlord shall deliver the Subleased Premises to Subtenant in their current "as is" condition, except that all of Sublandlord's personal property shall be removed from the Premises (and any damage caused by such removal shall be repaired by Sublandlord), which shall be "broom clean," but otherwise in its currently existing "as is" condition.

8.7 Sublandlord shall leave the reception desk in place and does hereby sell and assign all of its rights and title therein to Subtenant, provided that Subtenant accepts such desk in its "as is" condition.

8.8 Subtenant shall have no right to exercise the renewal option set forth in Exhibit E, Section I, attached to the Lease, unless Landlord agrees to contract directly with Subtenant and fully release Sublandlord of any and all obligation, responsibility or reference, in any manner whatsoever, as related to the Lease.

9. INDEMNITIES. Subtenant hereby agrees to protect, defend, indemnify and hold Sublandlord harmless from and against any and all liabilities, claims, expenses, losses and damages, including, without limitation, reasonable attorneys' fees and disbursements, which may at any time be asserted against Sublandlord by (a) the Landlord for failure of Subtenant to perform any of the covenants, agreements, terms, provisions or conditions contained in the Master Lease which by reason of the provisions of this Sublease Subtenant is obligated to perform, or (b) any person by reason of Subtenant's use and/or occupancy of the Subleased Premises. Sublandlord hereby agrees to indemnify, defend, protect, and hold Subtenant harmless from and against any and all losses, costs, claims, damages, expenses and liabilities (including, without limitation, reasonable attorneys' fees and disbursements), arising from any default by Sublandlord in the performance of any of Sublandlord's obligations under the Master Lease (subject to Subtenant's performance of its obligations as set forth in this Sublease). The provisions of this Section 9 shall survive the expiration or earlier termination of the Master Lease and/or this Sublease.

10. CANCELLATION OF MASTER LEASE. In the event of the cancellation or termination of the Master Lease for any reason whatsoever or of the involuntary surrender of the Master Lease by operation of law prior to the expiration date of this Sublease, Subtenant agrees to make full and complete attornment to the Landlord under the Master Lease for the balance of the term of this Sublease and upon the then executory terms hereof at the option of the Landlord at any time during Subtenant's occupancy of the Premises, which attornment shall be evidenced by an agreement in form and substance reasonably satisfactory to the Landlord. Subtenant agrees to execute and deliver such an agreement at any time within ten (10) business days after request of the Landlord, and Subtenant waives the provisions of any law now or hereafter in effect which may give Subtenant any right of election to terminate this Sublease or to surrender possession of the Subleased Premises in the event any proceeding is brought by the Landlord under the Master Lease to terminate the Master Lease.

11. CERTIFICATES. Each party hereto shall at any time and from time to time as requested by the other party upon not less than ten (10) days prior written notice, execute, acknowledge and deliver to the other party, a statement in writing certifying that this Sublease is unmodified and in full force and effect (or if there have been modifications that the same is in full force and effect as modified and stating the modifications, if any) certifying the dates to which rent and any other charges have been paid and stating whether or not, to the knowledge of the person signing the certificate, that the other party is not in default beyond any applicable grace period provided herein in performance of any of its obligations under this Sublease, and if so, specifying each such default of which the signer may have knowledge, it being intended that any such statement delivered pursuant hereto may be relied upon by others with whom the party requesting such certificate may be dealing.

12. ASSIGNMENT OR SUBLETTING. Subject further to all of the rights of the Landlord under the Master Lease and the restrictions contained in the Master Lease, Subtenant shall not be entitled to assign this Sublease or to sublet all or any portion of the Subleased Premises without the prior written consent of Sublandlord, which will not be unreasonably withheld.

13. SEVERABILITY. If any term or provision of this Sublease or the application thereof to any person or circumstances shall, to any extent, be invalid and unenforceable, the remainder of this Sublease or the application of such term or provision to persons or circumstances other than those as to which it is held invalid or unenforceable, shall not be affected thereby and each term or provision of this Sublease shall be valid and be enforced to the fullest extent permitted by law.

14. ENTIRE AGREEMENT; WAIVER. This Sublease contains the entire agreement between the parties hereto and shall be binding upon and inure to the benefit of their respective heirs, representatives, successors and permitted assigns. Any agreement hereinafter made shall be ineffective to change, modify, waive, release, discharge, terminate or effect an abandonment hereof, in whole or in part, unless such agreement is in writing and signed by the parties hereto.

15. CAPTIONS. Captions to the Sections in this Sublease are included for convenience only and are not intended and shall not be deemed to modify or explain any of the terms of this Sublease.

16. FURTHER ASSURANCES. The parties hereto agree that each of them, upon the request of the other party, shall execute and deliver, in recordable form if necessary, such further documents, instruments or agreements and shall take such further action that may be necessary or appropriate to effectuate the purposes of this Sublease.

17. GOVERNING LAW. This Sublease shall be governed by and in all respects construed in accordance with the internal laws of the State of California.

18. CONSENT OF LANDLORD. The validity of this Sublease shall be subject to the Landlord's prior written consent hereto, and if Landlord's consent shall not be obtained either on Landlord's form therefor or on the form attached hereto as Exhibit B and a copy thereof delivered to Subtenant within thirty (30) days of the date hereof, then this Sublease shall be void and of no force or effect, and the Security Deposit and prepaid base rent paid by Subtenant to Sublandlord shall be immediately refunded to Subtenant. Subtenant acknowledges that the form of consent to be used by Landlord in the event Landlord is willing to consent to this Sublease shall be determined by Landlord in Landlord's sole discretion.

IN WITNESS WHEREOF, the parties hereto have caused this Sublease to be executed as of the day and year first above written.

"Sublandlord":

ACACIA RESEARCH CORPORATION,
a California corporation

By: /s/ Robert L. Harris, II

Its: President

By:

Its:

"Subtenant":

JENKENS & GILCHRIST,
a Texas Professional Corporation

By: /s/ signature

Its: President

By:

Its:

EXHIBIT A

PASADENA TOWERS
TOWER II
Pasadena, California

STANDARD FORM OFFICE LEASE

BETWEEN

EOP-PASADENA TOWERS, L.L.C., A DELAWARE LIMITED LIABILITY COMPANY DOING BUSINESS AS EOP-PASADENA TOWERS, LLC, a Delaware limited liability company ("LANDLORD"),

AND

ACACIA RESEARCH CORPORATION, a California corporation ("TENANT")

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OFFICE LEASE AGREEMENT

This Office Lease Agreement (the "Lease") is made and entered into as of the _____ day of April, 1998, by and between EOP-PASADENA TOWERS, L.L.C., a Delaware limited liability company doing business as EOP-PASADENA TOWERS, LLC, a Delaware limited liability company ("Landlord") and ACACIA RESEARCH CORPORATION, a California corporation ("Tenant").

I. BASIC LEASE INFORMATION; DEFINITIONS.

A. The following are some of the basic lease information and defined terms used in this Lease.

1. "Additional Base Rental" shall mean Tenant's Pro Rata Share of Basic Costs and any other sums (exclusive of Base Rental) that are required to be paid by Tenant to Landlord hereunder, which sums are deemed to be additional rent under this Lease. Additional Base Rental and Base Rental are sometimes collectively referred to herein as "Rent."

2. "Base Rental" shall mean the sum of Seven Hundred Nineteen Thousand Two Hundred Sixty-Eight and NO/100 Dollars ($719,268.00), payable by Tenant to Landlord in sixty (60) monthly installments as follows:

1) Sixty (60) equal installments of Eleven Thousand Nine Hundred Eighty-Seven and 80/100 Dollars ($11,987.80) each payable on or before the first day of each month during the period beginning May 1, 1998, and ending April 30, 2003, provided that the installment of Base Rental for the first full calendar month of the Lease Term shall be payable upon the execution of this Lease by Tenant.

Notwithstanding anything contained herein to the contrary, as long as Tenant is not in default (after notice and the expiration of any applicable cure period under this Lease), Tenant shall be entitled to an abatement of Base Rental in the amount of Eleven Thousand Nine Hundred Eighty-Seven and 80/100 Dollars ($11,987.80) per month for one (1) full calendar month of the Lease Term, beginning with the first (1st) full calendar month (the "Base Rental Abatement Period"). The total amount of Base Rental abated during the Base Rental Abatement Period shall equal Eleven Thousand Nine Hundred Eighty-Seven and 80/100 Dollars ($11,987.80) (the "Abated Base Rental"). In the event Tenant defaults at any time during the Lease Term, and fails to cure such default within the applicable grace periods provided in the Lease, all Abated Base Rental shall immediately become due and payable. The payment by Tenant of the Abated Base Rental in the event of a default shall not limit or effect any of Landlord's other rights, pursuant to this Lease or at law or in equity, provided that the foregoing shall not entitle Landlord to receive a double recovery of its costs, expenses or damages in any action against Tenant for a default under this Lease. During the Base Rental Abatement Period, only Base Rental shall be abated, and all Additional Base Rental and other costs and charges specified in this Lease shall remain as due and payable pursuant to the provisions of this Lease.

3. "Building" shall mean the nine (9) story office tower commonly described as Tower II, consisting of approximately 208,244 rentable square feet located at 55 South Lake Avenue, Pasadena, Los Angeles County, State of California, as outlined on Exhibit A-2 attached hereto and incorporated herein.

4. The "Commencement Date," "Lease Term" and "Termination Date" shall have the meanings set forth in subsection I.A.4.b. below:

1) INTENTIONALLY OMITTED.

2) The "Lease Term" shall mean a period of sixty (60) months commencing on the later to occur of (1) May 1, 1998, (the "Target Commencement Date"); and (2) the first (1st) Monday following the date Tenant receives written notice that all Landlord Work in the Premises has been substantially completed, as such date is determined pursuant to Section III.A. hereof (the later to occur of such dates being defined as the "Commencement Date"). The "Termination Date" shall, unless sooner terminated as provided herein, mean the last day of the Lease Term. Notwithstanding the foregoing, if the Termination Date, as determined herein, does not occur on the last day of a calendar month, Landlord, at its option, may extend the Lease Term by the number of days necessary to cause the Termination Date to occur on the last day of the last calendar month of the Lease Term. Tenant shall pay Base Rental and Additional Base Rental for such additional days at the same rate payable for the portion of the last calendar month immediately preceding such extension.

Further, Landlord and Tenant acknowledge that the schedule of Base Rental described in Section I.A.2. above is based on the assumption that the Lease Term will commence on the Target Commencement Date. If the Lease Term does not commence on the Target Commencement Date, the beginning date set forth in the above schedule with respect to the payment of any installment(s) of Base Rental shall be appropriately adjusted on a per diem basis and set forth in the Commencement Letter to be prepared by Landlord.

5. "Premises" shall mean the area located on the sixth (6th) floor of the Building, as outlined on Exhibit A attached hereto and incorporated herein and known as Suite #650. Landlord and Tenant hereby stipulate and agree that the "Rentable Area of the Premises" shall mean 5,449 square feet and the "Rentable Area of the Building" shall mean 208,244 square feet. Notwithstanding the foregoing, unless specifically provided herein to the contrary, the Premises shall not include any telephone closets, electrical closets, janitorial closets, equipment rooms or similar areas on any full or partial floor that are used by Landlord for the operation of the Building.

6. "Permitted Use" shall mean general office use, provided however, no space in the parking structure, nor any ground floor space in Tower I or Tower II shall be used as or occupied by a retail bank, savings bank, savings and loan, thrift bank, credit union or other retail banking business (collectively, a "Retail Banking Business") or any use or occupancy which is in competition with a Retail Banking Business.

7. "Security Deposit" shall mean the sum of Thirteen Thousand One Hundred Eighty-Six and 58/100 Dollars ($13,186.58).

8. "Tenant's Pro Rata Share" shall mean two and six thousand one hundred sixty-six ten-thousandths percent (2.6166%), which is the quotient (expressed as a percentage), derived by dividing the Rentable Area of the Premises by the Rentable Area of the Building.

9. "Guarantor(s)" shall mean any party that agrees in writing to guarantee this Lease.

10. "Notice Addresses" shall mean the following addresses for Tenant and Landlord, respectively:

Tenant:

On and after the Commencement Date, notices shall be sent to Tenant at the Premises.

Prior to the Commencement Date, notices shall be sent to Tenant at the following address:

Acacia Research Corporation
12 South Raymond Avenue
Pasadena, California 91105
Attention: Paul Ryan

Landlord:

EOP-Pasadena Towers L.L.C., a
Delaware limited liability company
doing business as EOP-Pasadena
Towers, LLC, a Delaware limited
liability company
c/o Equity Office Properties Trust
Office of the Building
Pasadena Towers
800 East Colorado Boulevard
Suite 100
Pasadena, California 91101
Attention: Building Manager

With a copy to:

EOP-Pasadena Towers L.L.C., a
Delaware limited liability company
doing business as EOP-Pasadena
Towers, LLC, a Delaware limited
liability company
c/o Equity Office Properties Trust
Two North Riverside Plaza
Chicago, Illinois 60606
Attention: General Counsel for Property Operations

Payments of Rent only shall be made payable to the order of:

EQUITY OFFICE PROPERTIES

at the following address:

EOP-Pasadena Towers L.L.C., a
Delaware limited liability company
doing business as EOP-Pasadena
Towers, LLC, a Delaware limited
liability company
c/o Equity Office Properties Trust
Office of the Building
Pasadena Towers
800 East Colorado Boulevard
Suite 100
Pasadena, California 91101
Attention: Building Manager

B. The following are additional definitions of some of the defined terms used in the Lease.

1. "Base Year" shall mean 1998.

2. "Basic Costs" shall mean all costs and expenses paid or incurred in connection with operating, maintaining, repairing, managing and owning the Building and the Property, as further described in Article IV hereof and subject to the limitations set forth therein.

3. "Broker" means Cushman & Wakefield of California, Inc. and Sauve Riegel, Inc.

4. "Building Standard" shall mean the type, grade, brand, quality and/or quantity of materials Landlord designates from time to time to be the minimum quality and/or quantity to be used in the Building.

5. "Business Day(s)" shall mean Mondays through Fridays exclusive of the normal business holidays ("Holidays") of New Year's Day, Martin Luther King Day, Presidents' Day, Memorial Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day. Landlord, from time to time during the Lease Term, shall have the right to designate additional Holidays, provided that such additional Holidays are commonly recognized by other office buildings in the area where the Building is located.

6. "Common Areas" shall mean those areas provided for the common use or benefit of all tenants generally and/or the public, such as corridors, elevator foyers, common mail rooms, restrooms, vending areas, lobby areas (whether at ground level or otherwise) and other similar facilities.

7. "Exterior Common Areas" shall mean those areas of the Project and/or the Property which are not located within the Building and which are provided and maintained for the use and benefit of Landlord and tenants of the Building and/or the Project generally and the employees, invitees and licensees of Landlord and such tenants, including, without limitation, fountains, walkways, escalators, elevators, stairways, plaza, roads, driveways, sidewalks, and landscapes.

8. "Landlord Work" shall mean the work, if any, that Landlord is obligated to perform in the Premises pursuant to the Work Letter agreement, if any, attached hereto as Exhibit D.

9. "Maximum Rate" shall mean the greatest per annum rate of interest permitted from time to time under applicable law.

10. "Normal Business Hours" for the Building shall mean 8:00 A.M. to 6:00 P.M. Mondays through Fridays, and 9:00 A.M. to 1:00 P.M. on Saturdays, exclusive of Holidays.

11. "Prime Rate" shall mean the per annum interest rate publicly announced by The First National Bank of Chicago or any successor thereof from time to time (whether or not charged in each instance) as its prime or base rate in Chicago, Illinois.

12. "Property" shall mean the nine (9) story office tower, the address of which is 800 East Colorado Boulevard ("Tower I"), the nine (9) story office tower, the address of which is 55 South Lake Avenue ("Tower II"), the parking structure and ancillary commercial space, and the parcel(s) of land on which it is located and, at Landlord's discretion, and all other improvements owned by Landlord and serving the Building and the tenants thereof, the parcel(s) of land on which they are located, and some portions of the Exterior Common Areas.

13. "Project" shall mean the nine (9) story office tower, the address of which is 800 East Colorado Boulevard ("Tower I"), the nine (9) story office tower, the address of which is 55 South Lake Avenue ("Tower II"), the parking structure and ancillary commercial space, the Exterior Common Areas, and the two (2) story office building commonly known as the Home Savings of America Building. Landlord does not own the Home Savings of America Building.

II. LEASE GRANT.

Subject to and upon the terms herein set forth, Landlord leases to Tenant and Tenant leases from Landlord the Premises, together with the right, in common with others, to use the Common Areas, exterior Common Areas and parking.

III. ADJUSTMENT OF COMMENCEMENT DATE/POSSESSION.

A. The Lease Term shall not commence until the later to occur of the Target Commencement Date and the date that Landlord has substantially completed the Landlord Work; provided, however, that if Landlord shall be delayed in substantially completing the Landlord Work as a result of the occurrence of any of the following (a "Delay"):

1. Tenant's failure to furnish information in accordance with the Work Letter agreement or to respond to any request by Landlord for any approval or information within any time period prescribed, or if no time period is prescribed, then within two (2) Business Days of a written request; or

2. Tenant's insistence on materials, finishes or installations that have long lead times after having first been informed by Landlord that such materials, finishes or installations will cause a Delay; or

3. Changes in any plans and specifications requested by Tenant; or

4. The performance or nonperformance by a person or entity employed by Tenant in the completion of any work in the Premises (all such work and such persons or entities being subject to the prior approval of Landlord); or

5. Any request by Tenant that Landlord delay the completion of any of the Landlord Work; or

6. Any breach or default by Tenant in the performance of Tenant's obligations under this Lease (after notice and the expiration of any applicable cure period under this Lease); or

7. Any delay resulting from Tenant's having taken possession of the Premises for any reason prior to substantial completion of the Landlord Work; or

8. Any other delay actually chargeable to Tenant, its agents, employees or independent contractors;

then, for purposes of determining the Commencement Date, the date of substantial completion shall be deemed to be the day that said Landlord Work would have been substantially completed absent any such Delay(s). Landlord shall use reasonable efforts to notify Tenant of any circumstances of which Landlord is aware that have caused or may cause a Delay, so that Tenant may take whatever action is appropriate to minimize or prevent such Delay. Notwithstanding the foregoing, Tenant shall only be responsible for Delays to the extent that they actually prevent Landlord from substantially completing the Landlord Work by the Target Commencement Date. Accordingly, the number of

days of Delay shall in no event exceed the actual number of days between the Target Commencement Date and the date of substantial completion of Landlord Work. The Landlord Work shall be deemed to be substantially completed on the date that Landlord's architect reasonably determines that all Landlord's Work has been performed (or would have been performed absent any Delays), other than any details of construction, mechanical adjustment or any other matter, the noncompletion of which does not materially interfere with Tenant's use of the Premises. The adjustment of the Commencement Date and, accordingly, the postponement of Tenant's obligation to pay Rent shall be Tenant's sole remedy and shall constitute full settlement of all claims that Tenant might otherwise have against Landlord by reason of the Premises not being ready for occupancy by Tenant on the Target Commencement Date. Promptly after the determination of the Commencement Date, Landlord and Tenant shall enter into a letter agreement (the "Commencement Letter") on the form attached hereto as Exhibit C setting forth the Commencement Date, the Termination Date and any other dates that are affected by the adjustment of the Commencement Date. Tenant, within five (5) days after receipt thereof from Landlord, shall execute the Commencement Letter and return the same to Landlord. Notwithstandingthe foregoing, if there have been no Delays and the Commencement Date does not occur within six (6) months of the projected substantial completion of Landlord Work (the "Outside Completion Date"), Tenant, as its sole remedy, may terminate this Lease by giving Landlord written notice of termination on or before the earlier to occur of: (i) five (5) Business Days after the Outside Completion Date; and (ii) the Commencement Date. In such event, this Lease shall be deemed null and void and of no further force and effect and Landlord shall promptly refund any Prepaid Rental and Security Deposit previously advanced by Tenant under this Lease and, so long as Tenant has not previously defaulted under any of its obligations under the Work Letter, the parties hereto shall have no further responsibilities or obligations to each other with respect to this Lease. Landlord and Tenant acknowledge and agree that: (i) the determination of the Commencement Date shall take into consideration the affect of any Delays by Tenant; and (ii) the Outside Completion Date shall be postponed by the number of days the Commencement Date is delayed due to events of Force Majeure. Notwithstanding anything herein to the contrary, if Landlord determines that it will be unable to cause the Commencement Date to occur by the Outside Completion Date, Landlord shall have the right to immediately cease its performance of the Landlord Work and provide Tenant with written notice (the "Outside Extension Notice") of such inability, which Outside Extension Notice shall set forth the date on which Landlord reasonably believes that the Commencement Date will occur. Upon receipt of the Outside Extension Notice, Tenant shall have the right to terminate this Lease by providing written notice of termination to Landlord within five (5) Business Days after the date of the Outside Extension Notice. In the event that Tenant does not terminate this Lease within such five (5) Business Day period, the Outside Completion Date shall automatically be amended to be the dte set forth in Landlord's Outside Extension Notice.

B. By taking possession of the Premises, Tenant is deemed to have accepted the Premises and agreed that the Premises is in good order and satisfactory condition, with no representation or warranty by Landlord as to the condition of the Premises or the Building or suitability thereof for Tenant's use. Tenant's acceptance of the Premises shall be subject to Landlord's obligation to correct portions of the Landlord Work as set forth on a construction punch list prepared by Landlord and Tenant in accordance with the terms hereof. Within fifteen (15) days after the substantial completion of the Landlord Work, Landlord and Tenant shall together conduct an inspection of the Premises and prepare a "punch list" setting forth any portions of the Landlord Work that are not in conformity with the Landlord Work as required by the terms of this Lease. Notwithstanding the foregoing, at the request of Landlord, such construction punch list shall be mutually prepared by Landlord and Tenant prior to the date on which Tenant first begins to move its furniture, equipment or other personal property into the Premises. Landlord, as part of the Landlord Work, shall use good faith efforts to correct all such items within a reasonable time following the completion of the punch list.

C. [INTENTIONALLY OMITTED]

D. If Tenant takes possession of the Premises prior to the Commencement Date for the conduct of business in the normal course, such possession shall be subject to all the terms and conditions of the Lease and Tenant shall pay Base Rental and Additional Base Rental to Landlord for each day of occupancy prior to the Commencement Date. Notwithstanding the foregoing, Tenant may, so long as Tenant notifies the appropriate Building personnel, take possession of the Premises on the weekend (Saturday and Sunday) prior to the Commencement Date for the sole purpose of installing furniture, equipment or other personal property of Tenant. Such possession shall be subject to all of the terms and conditions of the Lease, except that Tenant shall not be required to pay Base Rental or Additional Base Rental with respect to the aforesaid weekend during which Tenant performs such move-in. Tenant shall, however, be liable for the cost of any services (e.g. electricity, HVAC, freight elevators) that are provided to Tenant or the Premises during the period of Tenant's possession prior to the Commencement Date. Nothing herein shall be construed as granting Tenant the right to take possession of the Premises prior to the Commencement Date, whether for construction, fixturing or any other purpose, without the prior consent of Landlord.

E. Notwithstanding the foregoing, if there have been no Delays and the Commencement Date does not occur by the date that is nine (9) months following the completion of the Plans (defined in the Work Letter) and the procurement of all permits necessary for the commencement of Landlord's Work (the "Outside Completion Date"), Tenant, as its sole remedy, may terminate this Lease by giving Landlord written notice of termination on or before the earlier to occur of: (i) five (5) Business Days after the Outside Completion Date and (ii) the "Commencement Date". In such event, this Lease shall be deemed null and void and of no further force and effect and Landlord shall promptly refund any Prepaid Rental and Security Deposit previously advanced by Tenant under this Lease and, so long as Tenant has not previously defaulted under any of its obligations under the Work Letter, the parties hereto shall have no further responsibilities or obligations to each other with respect to this Lease. Landlord and Tenant acknowledge and agree that (i) the determination of the Commencement Date shall take into consideration the effect of any Delays by Tenant; and (ii) the Outside Completion Date shall be postponed by the number of days the Commencement Date is delayed due to events of Force Majeure. Notwithstanding anything herein to the contrary, if Landlord determines that it will be unable to cause the Commencement Date to occur by the Outside Completion Date, the Landlord shall have the right to immediately cease its performance of the Landlord Work and provide Tenant with written notice (the "Outside Extension Notice") of such inability, which Outside Extension Notice shall set forth the date on which Landlord reasonably believes that the Commencement Date will occur. Upon receipt of the Outside Extension Notice, Tenant shall have the right to terminate this Lease by providing written notice of termination to Landlord within five (5) Business Days after the date of the Outside Extension Notice. In the event that Tenant does not terinate this Lease within such five (5) Business Day period, the Outside Completion Date shall automatically be amended to be the date set forth in Landlord's Outside Extension Notice.

IV. RENT.

A. During each calendar year, or portion thereof, falling within the Lease Term, Tenant shall pay to Landlord as Additional Base Rental hereunder the sum of (1) Tenant's Pro Rata Share of the amount, if any, by which Taxes (hereinafter defined) for the applicable calendar year exceed Taxes for the Base Year plus (2) Tenant's Pro Rata Share of the amount, if any, by which Expenses (hereinafter defined) for the applicable calendar year exceed Expenses for the Base Year. For purposes hereof, "Expenses" shall mean all Basic Costs with the

exception of Taxes. Tenant's Pro Rata Share of increases in Taxes and Tenant's Pro Rata Share of increases in Expenses shall be computed separate and independent of each other prior to being added together to determine the "Excess." In the event that Taxes and/or Expenses, as the case may be, in any calendar year decrease below the amount of Taxes or Expenses for the Base Year, Tenant's Pro Rata Share of Taxes and/or Expenses, as the case may be, for such calendar year shall be deemed to be $0, it being understood that Tenant shall not be entitled to any credit or offset if Taxes and/or Expenses decrease below the corresponding amount for the Base Year. Prior to the Commencement Date and prior to January 1 of each calendar year during the Lease Term, or as soon thereafter as practical, Landlord shall make a good faith estimate of the Excess for the applicable calendar year and Tenant's Pro Rata Share thereof. On or before the first day of each month during such calendar year, Tenant shall pay to Landlord, as Additional Base Rental, a monthly installment equal to one-twelfth of Tenant's Pro Rata Share of Landlord's estimate of the Excess. Landlord shall have the right from time to time during any such calendar year to revise the estimate of Basic Costs and the Excess for such year and provide Tenant with a revised statement therefor, and thereafter the amount Tenant shall pay each month shall be based upon such revised estimate. If Landlord does not provide Tenant with an estimate of the Basic Costs and the Excess by January 1 of any calendar year, Tenant shall continue to pay a monthly installment based on the previous year's estimate until such time as Landlord provides Tenant with an estimate of Basic Costs and the Excess for the current year. Upon receipt of such current year's estimate, an adjustment shall be made for any month during the current year with respect to which Tenant paid monthly installments of Additional Base Rental based on the previous year's estimate. Tenant shall pay Landlord for any underpayment within ten (10) days after demand. Any overpayment equal to or less than one (1) month's installment of Base Rental plus Additional Base Rental shall, at Landlord's option, be refunded to Tenant or credited against the installments of Base Rental and Additional Base Rental due for the month(s) immediately following the furnishing of such estimate. In the event of any overpayment in excess of the equivalent of one (1) month's installment of Base Rental plus Additional Base Rental, the excess shall, at Tenant's option, be refunded to Tenant or credited against the installment(s) of Base Rental and Additional Base Rental due for the months immediately following the furnishing of such estimate. Any amounts paid by Tenant based on any estimate shall be subject to adjustment pursuant to the immediately following paragraph when actual Basic Costs are determined for such calendar year.

As soon as is practical following the end of each calendar year during the Lease Term, Landlord shall furnish to Tenant a statement of Landlord's actual Basic Costs and the actual Excess for the previous calendar year. Landlord shall use reasonable efforts to furnish the statement of actual Basic Costs on or before June 1 of the calendar year immediately following the calendar year to which the statement applies. If the estimated Excess actually paid by Tenant for the prior year is in excess of Tenant's actual Pro Rata Share of the Excess for such prior year, then Landlord shall refund to Tenant any overpayment in excess of the equivalent of one (1) month's installment of Base Rental plus Additional Base Rental and apply the one (1) month's equivalent against Base Rental and Additional Base Rental due or to become due hereunder (or, at Tenant's option, Landlord shall apply the entirety of such overpayment against Base Rental and Additional Base Rental due or to become due hereunder); provided if the Lease Term expires prior to the determination of such overpayment, Landlord shall refund such overpayment to Tenant after first deducting the amount of any Rent due hereunder. Likewise, Tenant shall pay to Landlord, within ten (10) days after demand, any underpayment with respect to the prior year, whether or not the Lease has terminated prior to receipt by Tenant of a statement for such underpayment, it being understood that this clause shall survive the expiration of the Lease.

B. Basic Costs shall mean the sum of (y) all direct and indirect costs and expenses paid or incurred in each calendar year in connection with operating, maintaining, repairing, managing and owning the Premises, the Building and the Property,

inclusive of the Building Common Areas, and (z) the Building's allocable share of direct and indirect costs of operating and maintaining the Exterior Common Areas of the Project, and all costs, fees or other amounts payable by Landlord which are the responsibility of Landlord and other owners of the Project pursuant to the Declaration of Operating and Reciprocal Easement Agreement, including, but not limited to, the following:

1. All labor costs for all persons performing services required or utilized in connection with the operation, repair, replacement and maintenance of and control of access to the Building, the Property and the Project, including but not limited to amounts incurred for wages, salaries and other compensation for services, payroll, social security, unemployment and other similar taxes, workers' compensation insurance, uniforms, training, disability benefits, pensions, hospitalization, retirement plans, group insurance or any other similar or like expenses or benefits.

2. All management fees, the cost of equipping and maintaining a management office at the Property, accounting services, legal fees not attributable to leasing and collection activity, and all other administrative costs relating to the Building, the Property and the Project. If management services are not provided by a third party, Landlord shall be entitled to a management fee comparable to that due and payable to third parties provided Landlord or management companies owned by, or management divisions of, Landlord perform actual management services of a comparable nature and type as normally would be performed by third parties.

3. All rental and/or purchase costs of materials, supplies, tools and equipment used in the operation, repair, replacement and maintenance and the control of access to the Building, the Property and the Project.

4. All amounts charged to Landlord by contractors and/or suppliers for services, replacement parts, components, materials, equipment and supplies furnished in connection with the operation, repair, maintenance, replacement of and control of access to any part of the Building, the Property, or the Project generally, including the heating, air conditioning, ventilating, plumbing, electrical, elevator and other systems and equipment. At Landlord's option, major repair items may be amortized over a period of up to five (5) years. Notwithstanding the foregoing, except to the extent set forth in Subsection IV.B.11. below, it is hereby agreed that any costs in connection with replacements that would properly be considered to be capital improvements under generally accepted accounting principles shall be excluded from Basic Costs.

5. All premiums and deductibles paid by Landlord for fire and extended coverage insurance, earthquake and extended coverage insurance, liability and extended coverage insurance, rental loss insurance, elevator insurance, boiler insurance and other insurance customarily carried from time to time by landlords of comparable office buildings or required to be carried by Landlord's Mortgagee.

6. Charges for water, gas, steam and sewer, but excluding those charges for which Landlord is otherwise reimbursed by tenants, and charges for Electrical Costs. For purposes hereof, the term "Electrical Costs" shall mean: (i) all charges paid by Landlord for electricity supplied to the Building, Property and Premises, regardless of whether such charges are characterized as distribution charges, transmission charges, generation charges, public good charges, disconnection charges, competitive transaction charges, stranded cost recoveries or otherwise; (ii) except to the extent otherwise included in Basic Costs, any costs incurred in connection with the energy management program for the Building, Property and Premises, including any costs incurred for the replacement

of lights and ballasts and the purchase and installation of sensors and other energy saving equipment amortized over a reasonably estimated payback period; and (iii) if and to the extent permitted by law, a reasonable fee for the services provided by Landlord in connection with the selection of utility companies and the negotiation and administration of contracts for the generation of electricity. Notwithstanding the foregoing, Electrical Costs shall be adjusted as follows: (a) any amounts received by Landlord as reimbursement for above standard electrical consumption shall be deducted from Electrical Costs, (b) the cost of electricity incurred in providing overtime HVAC to specific tenants shall be deducted from Electrical Costs, it being agreed that the electrical component of overtime HVAC costs shall be calculated as a reasonable percentage of the total HVAC costs charged to such tenants, and (c) if Tenant is billed directly for the cost of electricity to the Premises as a separate charge in addition to Base Rental and Basic Costs, the cost of electricity to individual tenant spaces in the Building shall be deducted from Electrical Costs and the electricity component of Tenant's Basic Costs shall not be subject to gross-up provisions (if any) stated elsewhere in this Lease.

7. "Taxes," which for purposes hereof, shall mean: (a) all real estate taxes and assessments on the Property, the Building or the Premises, and taxes and assessments levied in substitution or supplementation in whole or in part of such taxes, (b) all personal property taxes for the Building's personal property, including license expenses, (c) all taxes imposed on services of Landlord's agents and employees, (d) all other taxes, fees or assessments now or hereafter levied by any governmental authority on the Project, the Property, the Building or its contents or on the operation and use thereof (except as they relate to specific tenants), and (e) all costs and fees incurred in connection with seeking reductions in or refunds in Taxes including, without limitation, any costs incurred by Landlord to challenge the tax valuation of the Building, the Property, or the Project, but excluding income taxes. For the purpose of determining real estate taxes and assessments for any given calendar year, the amount to be included in Taxes for such year shall be as follows: (1) with respect to any special assessment that is payable in installments, Taxes for such year shall include the amount of the installment (and any interest) due and payable during such year in the greatest number of installments available for such special assessment; and (2) with respect to all other real estate taxes, Taxes for such year shall, at Landlord's election, include either the amount accrued, assessed or otherwise imposed for such year or the amount due and payable for such year, provided that Landlord's election shall be applied consistently throughout the Lease Term. If a reduction in Taxes is obtained for any year of the Lease Term during which Tenant paid its Pro Rata Share of Basic Costs, then Basic Costs for such year will be retroactively adjusted and Landlord shall provide Tenant with a credit, if any, based on such adjustment. Likewise, if a reduction is subsequently obtained for Taxes for the Base Year (if Tenant's Pro Rata Share is based upon increases in Basic Costs over a Base Year), Basic Costs for the Base Year shall be restated and the Excess for all subsequent years recomputed. Tenant shall pay to Landlord Tenant's Pro Rata Share of any such increase in the Excess within thirty (30) days after Tenant's receipt of a statement therefor from Landlord.

8. All landscape expenses of the Property and/or the Project, if any.

9. Cost of all maintenance service agreements, including those for equipment, alarm service, window cleaning, drapery or venetian blind cleaning, janitorial services, pest control, uniform supply, plant maintenance and landscaping.

10. Cost of all other repairs, replacements and general maintenance of the Project, the Property and the Building neither specified above nor directly billed to tenants.

11. The amortized cost of capital improvements made to the Project, the Building or the Property which are: (a) primarily for the purpose of reducing operating expense costs or otherwise improving the operating efficiency of the Project, the Property or the Building; or (b) required to comply with any newly enacted laws, rules or regulations of any governmental authority or any changes in the existing laws, rules or regulations of any governmental authority or a requirement of Landlord's insurance carrier. The cost of such capital improvements shall be amortized over a period of five (5) years and shall, at Landlord's option, include interest at a rate that is reasonably equivalent to the interest rate that Landlord would be required to pay to finance the cost of the capital improvement in question as of the date such capital improvement is performed, provided if the payback period for any capital improvement is less than five (5) years, Landlord may amortize the cost of such capital improvement over the payback period. Notwithstanding the foregoing, Basic Costs shall not include the cost of any capital improvements that are required to correct work that, when initially performed by Landlord, was performed in violation of the then existing laws, rules or regulations governing the performance of such work.

12. Any other expense or charge of any nature whatsoever which, in accordance with general industry practice with respect to the operation of a first-class office building, would be construed as an operating expense.

Basic Costs shall not include the cost of capital improvements (except as set forth above and as distinguished from replacement parts or components purchased and installed in the ordinary course), depreciation, interest (except as provided above with respect to the amortization of capital improvements), lease commissions, and principal payments on mortgage and other non-operating debts of Landlord. Basic Costs shall also exclude:

1) Repairs or other work occasioned by: (i) fire, windstorm, or other casualty of the type which Landlord has insured (to the extent that Landlord has received insurance proceeds and provided that the amount of any deductible paid by Landlord shall be included in Basic Costs); or (ii) the exercise of the right of eminent domain (to the extent that such repairs or other work are covered by the proceeds of the award, if any, received by Landlord);

2) Leasing commissions, brochures, marketing supplies, attorney's fees, costs, and disbursements and other expenses incurred in connection with negotiation of leases with prospective tenants;

3) Rental concessions granted to specific tenants and expenses incurred in renovating or otherwise improving or decorating, painting, or redecorating space for specific tenants, other than ordinary repairs and maintenance provided or available to tenants in general;

4) Landlord's costs of electricity and other services sold or provided to tenants in the Building and for which Landlord is entitled to be reimbursed by such tenants as a separate additional charge or rental over and above the base rental or additional base rental payable under the lease with such tenant;

5) Overhead and profit increment paid to subsidiaries or other affiliates of Landlord for services on or to the Property, Building and/or Premises to the extent only that the costs of such services exceed the competitive cost for such services rendered by persons or entities of similar skill, competence and experience.

6) The cost of services that are not available to Tenant under this Lease or for which Tenant reimburses Landlord as a separate charge (other than through Basic Costs);

7) Advertising and promotional expenditures;

8) Costs incurred in connection with the sale, financing, refinancing, mortgaging or sale of the Building or Property, including brokerage commissions, attorneys' and accountants' fees, closing costs, title insurance premiums, transfer taxes and interest charges;

9) Costs, fines, interest, penalties, legal fees or costs of litigation incurred due to the late payments of taxes, utility bills and other costs incurred by Landlord's failure to make such payments when due unless such failure is due to Landlord's good faith and reasonable efforts in contesting the amount of such payments;

10) Costs incurred by Landlord for trustee's fees, partnership organizational expenses and accounting fees to the extent relating to Landlord's general corporate overhead and general administrative expenses;

11) Any penalties or liquidated damages that Landlord pays to Tenant under this Lease or to any other tenants in the Building under their respective leases;

12) Attorney's fees, costs and disbursements and other expenses incurred in connection with negotiations or disputes with tenants or other occupants of the Building or with prospective tenants (other than attorney's fees, costs and disbursements and other expenses incurred by Landlord in seeking to enforce Building rules and regulations).

If the Building is not at least ninety-five percent (95%) occupied during any calendar year of the Lease Term or if Landlord is not supplying services to at least ninety-five percent (95%) of the total Rentable Area of the Building at any time during any calendar year of the Lease Term, actual Basic Costs for purposes hereof shall, at Landlord's option, be determined as if the Building had been ninety-five percent (95%) occupied and Landlord had been supplying services to ninety-five percent (95%) of the Rentable Area of the Building during such year. If Tenant pays for its Pro Rata Share of Basic Costs based on increases over a "Base Year" and Basic Costs for any calendar year during the Lease Term are determined as provided in the foregoing sentence, Basic Costs for such Base Year shall also be determined as if the Building had been ninety-five percent (95%) occupied and Landlord had been supplying services to ninety-five percent (95%) of the Rentable Area of the Building. Any necessary extrapolation of Basic Costs under this Article shall be performed by adjusting the cost of those components of Basic Costs that are impacted by changes in the occupancy of the Building (including, at Landlord's option, Taxes) to the cost that would have been incurred if the Building had been ninety-five percent (95%) occupied and Landlord had been supplying services to ninety-five percent (95%) of the Rentable Area of the Building. In addition, if Tenant's Pro Rata Share of Basic Costs is determined based upon increases over a Base Year and Basic Costs for the Base Year include exit and disconnection fees, stranded cost charges and/or competitive transaction charges, such fees and charges may, at Landlord's option, be imputed as a Basic Cost for subsequent years in which such fees and charges are not incurred. In no event, however, shall the amount of such imputed fees and charges exceed the actual amount of exit and disconnection fees, stranded cost charges and/or competitive transaction charges that were actually included in Basic Costs for the Base Year.

C. If Basic Costs for any calendar year increase by more than five percent (5%) over Basic Costs for the immediately preceding calendar year, Tenant, within one hundred twenty (120) days after receiving Landlord's statement of actual Basic Costs for a particular calendar year, shall have the right to provide Landlord with written notice (the "Review Notice") of its intent to review Landlord's books and records relating to the Basic Costs for such calendar year. Within a reasonable time after receipt of a timely Review Notice, Landlord shall make such books and records available to Tenant or Tenant's agent for its review at either Landlord's home office or at the office of the Building, provided that if Tenant retains an agent to review Landlord's books and records for any calendar year, such agent must be a CPA firm licensed to do business in the state in which the Building is located. Tenant shall be solely responsible for any and all costs, expenses and fees incurred by Tenant or Tenant's agent in connection with such review. If Tenant elects to review Landlord's books and records, within sixty (60) days after such books and records are made available to Tenant, Tenant shall have the right to give Landlord written notice stating in reasonable detail any objection to Landlord's statement of actual Basic Costs for such calendar year. If Tenant fails to give Landlord written notice of objection within such sixty (60) day period or fails to provide Landlord with a Review Notice within the one hundred twenty (120) day period provided above, Tenant shall be deemed to have approved Landlord's statement of Basic Costs in all respects and shall thereafter be barred from raising any claims with respect thereto. Upon Landlord's receipt of a timely objection notice from Tenant, Landlord and Tenant shall work together in good faith to resolve the discrepancy between Landlord's statement and Tenant's review. If Landlord and Tenant determine that Basic Costs for the calendar year in question are less than reported, Landlord shal provide Tenant with a credit against future Additional Base Rental in the amount of any overpayment by Tenant. In addition, if Landlord and Tenant determine that Basic Costs for the Building were less than stated by more than five percent (5%), Landlord, within thirty (30) days after its receipt of paid invoices therefor from Tenant, shall reimburse Tenant for any reasonable amounts paid by Tenant to third parties in connection with such review by Tenant. Likewise, if Landlord and Tenant determine that Basic Costs for the calendar year in question are greater than reported, Tenant shall forthwith pay to Landlord the amount of underpayment by Tenant. Any information obtained by Tenant pursuant to the provisions of this Section shall be treated as confidential. Notwithstanding anything herein to the contrary, Tenant shall not be permitted to examine Landlord's books and records or to dispute any statement of Basic Costs unless Tenant has paid to Landlord the amount due as shown on Landlord's statement of actual Basic Costs, said payment being a condition precedent to Tenant's right to examine Landlord's books and records; provided, however, that such payment may be deemed to be a "payment under protest."

D. Tenant covenants and agrees to pay to Landlord during the Lease Term, without any setoff or deduction whatsoever, the full amount of all Base Rental and Additional Base Rental due hereunder. In addition, Tenant shall pay and be liable for, as additional rent, all rental, sales and use taxes or other similar taxes, if any, levied or imposed by any city, state, county or other governmental body having authority, such payments to be in addition to all other payments required to be paid to Landlord by Tenant under the terms and conditions of this Lease. Any such payments shall be paid concurrently with the payments of the Rent on which the tax is based. The Base Rental, Tenant's Pro Rata Share of Basic Costs and any recurring monthly charges due hereunder shall be due and payable in advance on the first day of each calendar month during the Lease Term without demand, provided that the installment of Base Rental for the first full calendar month of the Lease Term shall be payable upon the execution of this Lease by Tenant. All other items of Rent shall be due and payable by Tenant on or before ten (10) days after billing by Landlord. If the Lease Term commences on a day other than the first day of a calendar month or terminates on a day other than the last day of a calendar month, then the monthly Base Rental and Tenant's Pro Rata Share of Basic Costs for such month shall be

prorated for the number of days in such month occurring within the Lease Term based on a fraction, the numerator of which is the number of days of the Lease Term that fell within such calendar month and the denominator of which is thirty (30). All such payments shall be by a good and sufficient check. No payment by Tenant or receipt or acceptance by Landlord of a lesser amount than the correct amount of Rent due under this Lease shall be deemed to be other than a payment on account of the earliest Rent due hereunder, nor shall any endorsement or statement on any check or any letter accompanying any check or payment be deemed an accord and satisfacion, and Landlord may accept such check or payment without prejudice to Landlord's right to recover the balance or pursue any other available remedy. The acceptance by Landlord of any Rent on a date after the due date of such payment shall not be construed to be a waiver of Landlord's right to declare a default for any other late payment. Tenant's covenant to pay Rent shall be independent of every other covenant set forth in this Lease.

E. All Rent not paid within three (3) days after when due and payable shall bear interest from the date due until paid at the lesser of: (1) eighteen percent (18%) per annum; or (2) the Maximum Rate. In addition, if Tenant fails to pay any installment of Rent when due and payable hereunder more than two (2) times in any twelve (12) month period during the Lease Term, a service fee equal to five percent (5%) of such unpaid amount will be due and payable immediately by Tenant to Landlord.

F. In lieu of requiring Tenant to pay Rent by good and sufficient check in the manner described in Section IV.D. above, Landlord shall have the right to require Tenant to pay Rent by means of an automated debit system (the "Automatic Debit System") whereby any or all payments of Rent shall be debited from Tenant's account in a bank or financial institution designated by Tenant and credited to Landlord's account in a bank or financial institution designated by Landlord. In the event Landlord elects to have Tenant pay all or any portion of Rent by means of the Automatic Debit System, Tenant, within thirty (30) days after written request by Landlord, shall execute and deliver to Landlord any authorizations, certificates or other documentation as may be required to establish and give effect to the Automatic Debit System. If Landlord elects to have less than all items of Rent paid by the Automatic Debit System, Landlord shall advise Tenant in writing as to those items of Rent that will be paid by the Automatic Debit System (e.g. Base Rental only or Base Rental and Tenant's Pro Rata Share of Basic Costs only). Either party shall have the right to change its bank or financial institution from time to time, provided that Tenant, no less than thirty (30) days prior to the effective date of any such change, shall provide Landlord with written notice of such change and any and all authorizations, certificates or other documentation as may be required to establish and give effect to the Automatic Debit System at Tenant's new bank or financial institution. Tenant shall promptly pay all service fees and other charges imposed upon Landlord or Tenant in connection with the Automatic Debit System, including, without limitation, any charges resulting from insufficient funds in Tenant's bank account. In the event that any Rent is not paid on time as a result of insufficient funds in Tenant's account, Tenant shall be liable for any interest and/or service fee in accordance with Section IV.E. above. Tenant shall remain liable to Lndlord for all payments of Rent due hereunder regardless of whether Tenant's account is incorrectly debited in any given month, it being agreed that a debit of less than the full amount of Rent due shall not be construed as a waiver by Landlord of its right to receive any unpaid balance of Rent. Notwithstanding the foregoing, Landlord shall not be entitled to require Tenant to pay Rent through the Automatic Debit System unless Tenant, on more than two (2) occasions during the Lease Term, has failed to pay any installment of Rent on or before the date required herein.

V. USE.

The Premises shall be used for the Permitted Use and for no other purpose. Tenant agrees not to use or permit the use of the Premises for any purpose which is illegal, dangerous to life, limb or property or which, in Landlord's reasonable opinion, creates a nuisance or which would increase the cost of insurance coverage with respect to the Building. Tenant shall conduct its business and control its agents, servants, contractors, employees, customers, licensees, and invitees in such a manner as not to interfere with, annoy or disturb other tenants, or in any way interfere with Landlord in the management and operation of the Building. Tenant will maintain the Premises in a clean and healthful condition, and comply with all laws, ordinances, orders, rules and regulations of any governmental entity with reference to the operation of Tenant's business and to the use, condition, configuration or occupancy of the Premises, including without limitation, the Americans with Disabilities Act (collectively referred to as "Laws"). Tenant, within ten (10) days after receipt thereof, shall provide Landlord with copies of any notices it receives with respect to a violation or alleged violation of any Laws. Tenant will comply with the rules and regulations of the Building attached hereto as Exhibit B and such other rules and regulations adopted and altered by Landlord from time to time and will cause all of its agents, servants, contractors, employees, customers, licensees and invitees to do so. All changes to such rules and regulations will be reasonable and shall be sent by Landlord to Tenant in writing.

VI. SECURITY DEPOSIT.

The Security Deposit shall be delivered to Landlord upon the execution of this Lease by Tenant and shall be held by Landlord without liability for interest (except as required by law) and as security for the performance of Tenant's obligations under this Lease. The Security Deposit shall not be considered an advance payment of Rent or a measure of Tenant's liability for damages. Landlord may, from time to time, without prejudice to any other remedy, use all or a portion of the Security Deposit to make good any arrearage of Rent, to repair damages to the Premises, to clean the Premises upon termination of this Lease or otherwise to satisfy any other covenant or obligation of Tenant hereunder. Following any such application of the Security Deposit, Tenant shall pay to Landlord on demand the amount so applied in order to restore the Security Deposit to its original amount. If Tenant is not in default at the termination of this Lease, after Tenant surrenders the Premises to Landlord in accordance with this Lease and all amounts due Landlord from Tenant are finally determined and paid by Tenant or through application of the Security Deposit, the balance of the Security Deposit remaining after any such application shall be returned to Tenant. If Landlord transfers its interest in the Premises during the Lease Term, Landlord may assign the Security Deposit to the transferee and thereafter shall have no further liability for the return of such Security Deposit. Tenant agrees to look solely to such transferee or assignee for the return of the Security Deposit. Landlord and its successors and assigns shall not be bound by any actual or attempted assignment or encumbrance of the Security Deposit by Tenant, provided, however, if Tenant's interest in this Lease has been assigned, Landlord shall, provided that Landlord has been furnished with a fully executed copy of the agreement assigning such Security Deposit, return the Security Deposit to such assignee in accordance with the terms and conditions hereof. If Landlord return the Security Deposit to Tenant's assignee as aforesaid, Landlord will have no further obligation to any party with respect thereto. Landlord shall not be required to keep the Security Deposit separate from its other accounts.

VII. SERVICES TO BE FURNISHED BY LANDLORD.

A. Landlord, as part of Basic Costs (except as otherwise provided), agrees to furnish Tenant the following services:

1. Water for use in the lavatories on the floor(s) on which the Premises is located. If Tenant desires water in the Premises for any approved reason, including a private lavatory or kitchen, cold water shall be supplied, at Tenant's sole cost and expense, from the Building water main through a line and fixtures installed at Tenant's sole cost and expense with the prior reasonable consent of Landlord. If Tenant desires hot water in the

Premises, Tenant, at its sole cost and expense and subject to the prior reasonable consent of Landlord, may install a hot water heater in the Premises. Tenant shall be solely responsible for maintenance and repair of any such hot water heater.

2. Central heat and air conditioning in season during Normal Business Hours, at such temperatures and in such amounts as are considered by Landlord, in its reasonable judgment, to be standard for buildings of similar class, size, age and location, or as required by governmental authority. In the event that Tenant requires central heat, ventilation or air conditioning at hours other than Normal Business Hours, such central heat, ventilation or air conditioning may be provided by telephonic activation of the Building's HVAC system and/or shall be furnished upon the written request of Tenant delivered to Landlord at the office of the Building prior to 3:00 P.M. at least one Business Day in advance of the date for which such usage is requested. Tenant shall pay Landlord, as Additional Base Rental, the entire cost of additional service as such costs are determined by Landlord from time to time (as of the date of this Lease, Landlord's cost for such service is $60.00 per hour (or fractional hour), which charge may be subject to change from time to time to reflect changes in Landlord's direct or indirect costs of providing such service).

3. Maintenance and repair of all Common Areas in the manner and to the extent reasonably deemed by Landlord to be standard for buildings of similar class, size, age and location.

4. Janitor service on Business Days in accordance with the cleaning specifications attached hereto as Exhibit G, or such other reasonably comparable specifications designated, from time to time, by Landlord; provided, however, if Tenant's use, floor covering or other improvements require special services, Tenant shall pay the additional cost reasonably attributable thereto as Additional Base Rental.

5. Passenger elevator service in common with other tenants of the Building.

6. Electricity to the Premises for general office use, in accordance with and subject to the terms and conditions set forth in Article XI of this Lease.

7. The failure by Landlord to any extent to furnish, or the interruption or termination of, any services in whole or in part, resulting from adherence to laws, regulations and administrative orders, wear, use, repairs, improvements, alterations or any causes beyond the reasonable control of Landlord shall not render Landlord liable in any respect nor be construed as a constructive eviction of Tenant, nor give rise to an abatement of Rent, nor relieve Tenant from the obligation to fulfill any covenant or agreement hereof. Should any of the equipment or machinery used in the provision of such services for any cause cease to function properly, Landlord shall use reasonable diligence to repair such equipment or machinery.

B. Tenant expressly acknowledges that if Landlord, from time to time, elects to provide security services, Landlord shall not be deemed to have warranted the efficiency of any security personnel, service, procedures or equipment and Landlord shall not be liable in any manner for the failure of any such security personnel, services, procedures or equipment to prevent or control, or apprehend anyone suspected of personal injury, property damage or any criminal conduct in, on or around the Property.

VIII. LEASEHOLD IMPROVEMENTS.

Any trade fixtures, unattached and movable equipment or furniture, or other personalty brought into the Premises by Tenant ("Tenant's Property") shall be owned and insured by Tenant. Tenant shall remove all such Tenant's Property from the Premises in accordance with the terms of Article XXXV hereof. Any and all alterations, additions and improvements to the Premises, including any built-in furniture (collectively, "Leasehold Improvements") shall be owned and insured by Landlord and shall remain upon the Premises, all without compensation, allowance or credit to Tenant. Landlord may, nonetheless, at any time prior to, or within six (6) months after, the expiration or earlier termination of this Lease or Tenant's right to possession, require Tenant to remove any Leasehold Improvements performed by or for the benefit of Tenant and all electronic, phone and data cabling as are designated by Landlord (the "Required Removables") at Tenant's sole cost. In the event that Landlord so elects, Tenant shall remove such Required Removables within ten (10) days after written notice from Landlord, provided that in no event shall Tenant be required to remove such Required Removables prior to the expiration or earlier termination of this Lease or Tenant's right to possession. In addition to Tenant's obligation to remove the Required Removables, Tenant shall repair any damage caused by such removal and perform such other work as is reasonably necessary to restore the Premises to a "move in" condition, ordinary wear, tear and casualty excepted. If Tenant fails to remove any specified Required Removables or to perform any required repairs and restoration within the time period specified above, Landlord, at Tenant's sole cost and expense, may remove, store, sell and/or dispose of the Required Removables and perform such required repairs and restoration work. Tenant, within five (5) days after demand from Landlord, shall reimburse Landlord for any and all reasonable costs incurred by Landlord in connection with the Required Removables. Notwithstanding the foregoing, Tenant may request in writing at the time it submits its plans and specifications for an alteration, addition or improvement, that Landlord advise Tenant whether Landlord will require Tenant to remove, at the termination of this Lease or Tenant's right to possession hereunder, such alteration, addition or improvement, or any particular portion thereof andLandlord shall advise Tenant within twenty (20) days after receipt of Tenant's request as to whether Landlord will require removal; provided, however, Landlord shall have the right to require Tenant to remove any vault, stairway, raised floor or structural alterations installed in the Premises, regardless of whether Landlord timely notified Tenant that it would require such removal.

IX. GRAPHICS.

Landlord shall provide and install, at Tenant's cost, any suite numbers and Tenant identification on the exterior of the Premises using the standard graphics for the Building. Tenant shall not be permitted to install any signs or other identification without Landlord's prior written consent. Landlord shall not permit signage identifying any Retail Banking Business or competitor of a Retail Banking Business to be located above the ground floor level of the improvements on or about, or visible from, the exterior of the Building, the Property or the Project.

X. REPAIRS AND ALTERATIONS.

A. Except to the extent such obligations are imposed upon Landlord hereunder, Tenant, at its sole cost and expense, shall perform all maintenance and repairs to the Premises as are necessary to keep the same in good condition and repair throughout the entire Lease Term, reasonable wear and tear excepted. Tenant's repair and maintenance obligations with respect to the Premises shall include, without limitation, any necessary repairs with respect to: (1) any carpet or other floor covering, (2) any interior partitions, (3) any doors, (4) the interior side of any demising walls, (5) any telephone and computer cabling that serves Tenant's equipment exclusively, (6) any supplemental air conditioning units, private showers and kitchens, including any plumbing in connection therewith, and similar facilities serving Tenant exclusively, and (7) any alterations, additions or improvements performed by contractors retained by Tenant. All such work shall be performed in accordance with Section X.B. below and the rules, policies and procedures reasonably enacted by Landlord from time to time for the performance of work in the Building. If Tenant fails to make any necessary

repairs to the Premises within ten (10) days after notice from Landlord (provided that no prior notice shall be required in the event of an emergency), Landlord may, at its option, make such repairs, and Tenant shall pay the cost thereof to the Landlord on demand as Additional Base Rental, together with an administrative charge in an amount equal to ten percent (10%) of the cost of such repairs. Landlord shall, at its expense (except as included in Basic Costs), keep and maintain in good repair and working order and make all repairs to and perform necessary maintenance upon: (a) all structural elements of the Building; and (b) all mechanical, electrical and plumbing systems that serve the Building in general; and (c) the Building facilities common to all tenants including, but not limited to, the ceilings, walls and floors in the Common Areas.

B. Tenant shall not make or allow to be made any alterations, additions or improvements to the Premises without first obtaining the written consent of Landlord in each such instance. Notwithstanding the foregoing, Landlord's consent shall not be required for any alteration, addition or improvement that satisfies all of the following criteria: 1) costs less than Ten Thousand and No/100 Dollars ($10,000.00); 2) is of a cosmetic nature such as painting, wallpapering, hanging pictures and installing carpeting; 3) is not visible from the exterior of the Premises or Building; and 4) will not affect the systems or structure of the Building and does not require work to be performed inside the walls or above the ceiling of the Premises; provided that even if consent is not required, Tenant shall still comply with all the other provisions of this Section X.B. Prior to commencing any such work and as a condition to obtaining Landlord's consent, Tenant must furnish Landlord with plans and specifications reasonably acceptable to Landlord; names and addresses of contractors reasonably acceptable to Landlord; copies of contracts; necessary permits and approvals; evidence of contractor's and subcontractor's insurance in accordance with Article XVI Section B. hereof; and payment bond or other security, all in form and amount satisfactory to Landlord. All such improvements, alterations or additions shall be constructed in a good and workmanlike manner using Building Standard materials or other new materials of equal or greater quality. Landlord, to the extent reasonably necessary to avoid any disruption to the tenants and occupants of the Building, shall have the right to designate the time when any such alterations, additions and improvements may be performed and to otherwise designate reasonable rules, regulations and procedures for the performance of work in the Building. Upon completion, Tenant shall furnish "as-built" plans, contractor's affidavits and partial, or full and final waivers of lien, as applicable, in recordable form, and receipted bills covering all labor and materials. All improvements, alterations and additions shall comply with all insurance requirements, codes, ordinances, laws and regulations, including without limitation, the Americans with Disabilities Act. Tenant shall reimburse Landlord upon demand as Additional Base Rental for all sums, if any, expended by Landlord for third party examination of the architectural, mechanical, electric and plumbing plans for any alterations, additions or improvements. In addition, if Landlord so requests, Landlord shall be entitled to oversee the construction of any alterations, additions or improvements that may affect the structure of the Building or any of the mechanical, electrical, plumbing or life safety systems of the Building. In the event Landlord elects to oversee such work, Landlord shall be entitled to receive a fee for such oversight in an amount equal to ten percent (10%) of the cost of such alterations, additions or improvements. Landlord's approval of Tenant's plans and specifications for any work performed for or on behalf of Tenant shall not be deemed to be a representation by Landlord that such plans and specifications comply with applicable insurance requirements, building codes, ordinances, laws or regulations or that the alterations, additions and improvements constructed in accordance with such plans and specifications will be adequate for Tenant's use.

XI. USE OF ELECTRICAL SERVICES BY TENANT.

A. All electricity used by Tenant in the Premises shall be paid for by Tenant through inclusion in Basic Costs (except as provided in Section XI.B. below with respect to excess usage). It is understood that electrical service to the Premises may be furnished by one or more companies providing electrical generation, transmission and/or distribution services and that the cost of electricity may be billed as a single charge or divided into and billed in a variety of categories such as distribution charges, transmission charges, generation charges, public good charges or other similar categories. Landlord shall have the exclusive right to select the company(ies) providing electrical service to the Building, Premises and Property, to aggregate the electrical service for the Building, Premises and Property with other buildings, to purchase electricity for the Building, Premises and Property through a broker and/or buyers group and to change the providers and/or manner of purchasing electricity from time to time. Landlord shall be entitled to receive a reasonable fee (if permitted by law) for the services provided by Landlord in connection with the selection of utility companies and the negotiation and administration of contracts for the generation of electricity. In addition, if Landlord bills Tenant directly for the cost of electricity as Additional Base Rental, the cost of electricity may include (if permitted by law) an administrative fee to reimburse Landlord for the cost of reading meters, preparing invoices and related costs.

B. Tenant's use of electrical service in the Premises shall not exceed, either in voltage, rated capacity, use beyond Normal Business Hours or overall load, that which Landlord deems to be standard for the Building. In the event Tenant shall consume (or request that it be allowed to consume) electrical service in excess of that deemed by Landlord to be standard for the Building, Landlord may refuse to consent to such excess usage or may condition its consent to such excess usage upon such conditions as Landlord reasonably elects (including the installation of utility service upgrades, submeters, air handlers or cooling units), and all such additional usage (to the extent permitted by law), installation and maintenance thereof shall be paid for by Tenant as Additional Base Rental. Use of electricity after Normal Business Hours is charged to Tenant, as of the date of this Lease, at $10.00 per hour (or fractional hour) of use; such charge is subject to change from time to time to reflect changes in Landlord's direct or indirect costs of providing such service. Landlord, at any time during the Lease Term, shall have the right to separately meter electrical usage for the Premises or to measure electrical usage by survey or any other method that Landlord, in its reasonable judgment, deems to be appropriate.

C. Notwithstanding Section A. above to the contrary, if Landlord permits Tenant to purchase electrical power for the Premises from a provider other than Landlord's designated company(ies), such provider shall be considered to be a contractor of Tenant and Tenant shall indemnify and hold Landlord harmless from such provider's acts and omissions while in, or in connection with their services to, the Building or Premises in accordance with the terms and conditions of Article XV. In addition, at the request of Landlord, Tenant shall allow Landlord to purchase electricity from Tenant's provider at Tenant's rate or at such lower rate as can be negotiated by the aggregation of Landlord's and Tenant's requirements for electricity power.

XII. ENTRY BY LANDLORD.

Landlord and its agents or representatives shall have the right to enter the Premises to inspect the same, or to show the Premises to prospective purchasers, mortgagees, tenants (during the last twelve months of the Lease Term or earlier in connection with a potential relocation) or insurers, or to clean or make repairs, alterations or additions thereto, including any work that Landlord deems necessary for the safety, protection or preservation of the Building or any occupants thereof, or to facilitate repairs, alterations or additions to the Building or any other tenants' premises. Except for any entry by Landlord in an emergency situation or to

provide normal cleaning and janitorial service, Landlord shall provide Tenant with reasonable prior notice of any entry into the Premises, which notice may be given verbally. If reasonably necessary for the protection and safety of Tenant and its employees, Landlord shall have the right to temporarily close the Premises to perform repairs, alterations or additions in the Premises, provided that Landlord shall use reasonable efforts to perform all such work on weekends and after Normal Business Hours. Entry by Landlord hereunder shall not constitute a constructive eviction or entitle Tenant to any abatement or reduction of Rent by reason thereof. Notwithstanding the foregoing, except in emergency situations as determined by Landlord, Landlord shall exercise reasonable efforts: (1) not to unreasonably interfere with the conduct of the business of Tenant on the Premises; and (2) if entry during Normal Business Hours would unreasonably interfere with Tenant's business, to affect such entry during hours other than Normal Business Hours. Landlord, however, shall not be required to perform such entry after Normal Business Hours if Landlord's entry is necessitated by the acts or omissions of Tenant or the performance of Landlord's obligations hereunder and, by performing work during non-business hours, Landlord would be required to have building personnel remain in the Building after normal working hours or to pay its contractors overtime.

XIII. ASSIGNMENT AND SUBLETTING.

A. Tenant shall not assign, sublease, transfer or encumber this Lease or any interest therein or grant any license, concession or other right of occupancy of the Premises or any portion thereof or otherwise permit the use of the Premises or any portion thereof by any party other than Tenant (any of which events is hereinafter called a "Transfer") without the prior written consent of Landlord, which consent shall not be unreasonably withheld with respect to any proposed assignment or subletting. Landlord's consent shall not be considered unreasonably withheld if: (1) the proposed transferee's financial responsibility does not meet the same criteria Landlord uses to select Building tenants; (2) the proposed transferee's business is not suitable for the Building considering the business of the other tenants and the Building's prestige or would result in a violation of an exclusive right granted to another tenant in the Building; (3) the proposed use is different than the Permitted Use; (4) the proposed transferee is a government agency or occupant of the Building or Property; (5) Tenant is in default (after notice and the expiration of any applicable cure period under this Lease); or (6) any portion of the Building or Premises would become subject to additional or different governmental laws or regulations as a consequence of the proposed Transfer and/or the proposed transferee's use and occupancy of the Premises. Tenant acknowledges that the foregoing is not intended to be an exclusive list of the reasons for which Landlord may reasonably withhold its consent to a proposed Transfer. Any attempted Transfer in violation of the terms of this Article shall, at Landlord's option, be void. Consent by Landlord to one or more Transfers shall not operate as a waiver of Landlord's rights as to any subsequent Transfers. In addition, Tenant shall not, without Landlord's consent, publicly advertise the proposed rental rate for any Transfer. Notwithstanding anything to the contrary contained herein or in Section XIII.D., Tenant mayassign its entire interest under this Lease or sublet the Premises to a wholly owned corporation, partnership or other legal entity or controlled subsidiary or parent of Tenant or to any successor to Tenant by purchase, merger, consolidation or reorganization (hereinafter, collectively, referred to as "Permitted Transfer") without the consent of Landlord, provided: (i) Tenant is not in default under this Lease; (ii) if such proposed transferee is a successor to Tenant by purchase, merger, consolidation or reorganization, the continuing or surviving entity shall own all or substantially all of the assets of Tenant and shall have a net worth which is at least equal to the greater of Tenant's net worth at the date of this Lease or Tenant's net worth at the date of the Transfer; (iii) such proposed transferee operates the business in the Premises for the Permitted Use and no other purpose; and (iv) in no event shall any Transfer release or relieve Tenant from any of its obligations under this Lease. Additionally, Tenant may, without the consent of Landlord and as a Permitted Transfer, sublet up to five (5) individual offices within the Premises to subtenant(s) or occupant(s) within the Premises in which Tenant has a substantial ownership interest (but not

necessarily a controlling interest), but in no event shall the aggregate of area covered by such transactions exceed 1,000 rentable square feet of the Premises, and provided only that (w) Tenant does not separately demise such space and the subtenants in each of such individual offices shall utilize, together with all other such subtenants, one (1) common entry way to the Premises (as well as possibly utilizing certain shared central services, such as reception, photocopying and the like); (x) the proposed transferee operates the business in the Premises for the Permitted Use, not in violation of any of the terms and conditions of this Lease or any of the Rules and Regulations of the Building, and for no other purpose; (y) in no event shall any such Transfer release or relieve Tenant from any of its obligations under this Lease; and (z) the proposed subtenant's business is professional and suitable for the Building considering the business of other tenants and the Building's prestige (a transaction contemplated by this sentence being referred to herein as a "Permitted Office Transfer"). A violation of any of the foregoing with respect to any purported Permitted Office Transfer to any Transfer shall be considered a default by Tenant hereunder. Tenant shall give Landlord written notice at least thirty (30) days prior to the effective date of any Permitted Transfer or Permitted Office Transfer; in the case of any Permitted Office Transfer, such notice shall specify in reasonable detail the terms and conditions of such transfer, which may not include any consideration to Tenant which would be subject to the provisions of Section XIV.C below or a term in excess of nine (9) months. In addition, Tenant hereby agrees that, to the fullest extent permissible under applicable law, Tenant will indemnify Landlord for the acts and omissions of any Permitted Office Transfer subtenant, its agents, employees, contractors, customers and invitees in accordance with the terms and conditions of Article XV of this Lease and to cause any insurance to the maintained by Tenant under this Lease to be extended to cover the acts and omissions of any Permitted Office Transfer subtenant, its agents, employees, contractors, customers and invitees) while in the Building. As used herein: (a) "parent" shall mean a company which owns a majority of Tenant's voting equity; (b) "controlled" or "subsidiary" shall mean a entity wholly owned by Tenant or at least fifty-one percent (51%) of whose voting equity is owned by Tenant; and (c) "affiliate" shall mean an entity controlled, controlling or under common control with Tenant. Notwithstanding the foregoing, sale of the shares of equity of any affiliate or subsidiary to which this Lease has been assigned or transferred other than to another parent, subsidiary or affiliate of the original Tenant named hereunder shall be deemed to be an assignment requiring the consent of Landlord hereunder. Landlord agrees, following Tenant's written request therefore, to provide directory strips identifying Permitted Office Transfer occupants in the Building's lobby directory; provided, however, that the aggregate number of directory strips identifying Tenant and Tenant's employees as well Tenant's Permitted Office Transfer occupants shall not at any time exceed the aggregate number of lobby directory strips allocable to Tenant and the Premises pursuant to the terms and provisions of this Lease and Landlord's then-current policies for determining such allocation.

B. If Tenant requests Landlord's consent to a Transfer, Tenant, together with such requests for consent, shall provide Landlord with the name of the proposed transferee and the nature of the business of the proposed transferee, the term, use, rental rate and all other material terms and conditions of the proposed Transfer, including, without limitation, a copy of the proposed assignment, sublease or other contractual documents and evidence satisfactory to Landlord that the proposed transferee is financially responsible. Notwithstanding Landlord's agreement to act reasonably under Section XIII.A. above, Landlord may, within thirty (30) days after its receipt of all information and documentation required herein, either, (1) consent to or reasonably refuse to consent to such Transfer in writing; or (2) if the Transfer is an assignment or a sublease of all or substantially all the Premises for any portion of the Lease Term or a sublease of any portion of the Premises for all or substantially all of the remaining Lease Term, negotiate directly with the proposed transferee and in the event Landlord is able to reach an agreement with such proposed transferee, terminate this

Lease (in part or in whole, as appropriate) upon thirty (30) days' notice; or (3) if the Transfer is an assignment or a sublease of all or substantially all the Premises for any portion of the Lease Term or a sublease of any portion of the Premises for all or substantially all of the remaining Lease Term, cancel and terminate this Lease, in whole or in part as appropriate, upon thirty (30) days' notice. Notwithstanding the foregoing, Landlord shall not have the right to terminate pursuant to 2 or 3 above if the proposed transferee is a wholly owned corporation or controlled subsidiary or affiliate of Tenant or a successor to Tenant by purchase, merger, consolidation or reorganization. In the event Landlord consents to any such Transfer, the Transfer and consent thereto shall be in a form approved by Landlord, and Tenant shall bear all costs and expenses incurred by Landlord in connection with the review and approval of such documentation, which costs and expenses shall be deemed to be at least Seven Hundred Fifty Dollars ($750.00). Notwithstanding the foregoing, provided that Tenant does not request any changes to this Lease or Landlord's standard form of consent in connection with the proposed transfer, such costs and expenses shall not exceed Seven Hundred Fifty Dollars ($750.00).

C. Fifty percent (50%) of all cash or other proceeds (the "Transfer Consideration") of any Transfer of Tenant's interest in this Lease and/or the Premises, whether consented to by Landlord or not, shall be paid to Landlord and Tenant hereby assigns all rights it might have or ever acquire in fifty percent (50%) of any such proceeds to Landlord. In addition to the Rent hereunder, Tenant hereby covenants and agrees to pay to Landlord fifty percent (50%) of all rent and other consideration which it receives which is in excess of the Rent payable hereunder within ten (10) days following receipt thereof by Tenant. In determining excess rent in connection with a Transfer, Tenant may (on an amortized basis, as described below), deduct the following expenditures resulting from such a Transfer: (i) reasonable brokerage fees, (ii) reasonable attorneys' fees, and (iii) construction costs incurred in improving the space that is the subject of the Transfer (as opposed to any upgrades or improvements to remainder areas of the Premises in which Tenant will retain occupancy); such costs shall be amortized on a straight-line basis over the remainder of the Lease Term (or, with respect to a sublease for less than the remainder of the Lease Term, the remainder of the term of the Sublease), and Tenant shall be entitled to offset against Tenant's monthly payment of Transfer Consideration to Landlord payable hereunder an amount equal to the monthly amortization of such costs. In addition to any other rights Landlord may have, Landlord shall have the right to contact any transferee and require that all payments made pursuant to the Transfer shall be made directly to Landlord.

D. If Tenant is a corporation, limited liability company or similar entity, and if at any time during the Lease Term the entity or entities who own the voting shares at the time of the execution of this Lease cease for any reason (including but not limited to merger, consolidation or other reorganization involving another corporation) to own a majority of such shares, or if Tenant is a partnership and if at any time during the Lease Term the general partner or partners who own the general partnership interests in the partnership at the time of the execution of this Lease, cease for any reason to own a majority of such interests (except as the result of transfers by gift, bequest or inheritance to or for the benefit of members of the immediate family of such original shareholder[s] or partner[s]), such an event shall be deemed to be a Transfer. The preceding sentence shall not apply whenever Tenant is a corporation, the outstanding stock of which is listed on a recognized security exchange, or if at least eighty percent (80%) of its voting stock is owned by another corporation, the voting stock of which is so listed.

E. Any Transfer consented to by Landlord in accordance with this Article XIII shall be only for the Permitted Use and for no other purpose. In no event shall any Transfer release or relieve Tenant or any Guarantors from any obligations under this Lease.

XIV. LIENS.

Tenant will not permit any mechanic's liens or other liens to be placed upon the Premises or Tenant's leasehold interest therein, the Building, or the Property. Landlord's title to the Building and Property is and always shall be paramount to the interest of Tenant, and nothing herein contained shall empower Tenant to do any act that can, shall or may encumber Landlord's title. In the event any such lien does attach, Tenant shall, within ten (10) days of notice of the filing of said lien, either discharge or bond over such lien to the satisfaction of Landlord and Landlord's Mortgagee (as hereinafter defined), and in such a manner as to remove the lien as an encumbrance against the Building and Property. If Tenant shall fail to so discharge or bond over such lien, then, in addition to any other right or remedy of Landlord, Landlord may, but shall not be obligated to bond over or discharge the same. Any amount paid by Landlord for any of the aforesaid purposes, including reasonable attorneys' fees (if and to the extent permitted by law) shall be paid by Tenant to Landlord on demand as Additional Base Rental. Landlord shall have the right to post and keep posted on the Premises any notices that may be provided by law or which Landlord may deem to be proper for the protection of Landlord, the Premises and the Building from such liens.

XV. INDEMNITY AND WAIVER OF CLAIMS.

A. Except to the extent such losses, liabilities, obligations, damages, penalties, claims, costs, charges, and expenses result from the negligence of Landlord and/or its agents, employees or contractors, Tenant shall indemnify, defend and hold Landlord, its members, principals, beneficiaries, partners, officers, directors, employees, Mortgagee(s) and agents, and the respective principals and members of any such agents (collectively the "Landlord Related Parties") harmless against and from all liabilities, obligations, damages, penalties, claims, costs, charges and expenses, including, without limitation, reasonable attorneys' fees and other professional fees (if and to the extent permitted by law), which may be imposed upon, incurred by, or asserted against Landlord or any of the Landlord Related Parties and arising, directly or indirectly, out of or in connection with the use, occupancy or maintenance of the Premises by, through or under Tenant including, without limitation, any of the following: (1) any work or thing done in, on or about the Premises or any part thereof by Tenant or any of its transferees, agents, servants, contractors, employees, customers, licensees or invitees; (2) any use, non-use, possession, occupation, condition, operation or maintenance of the Premises or any part thereof; (3) any act or omission of Tenant or any of its transferees, agents, servants, contractors, employees, customers, licensees or invitees, regardless of whether such act or omission occurred within the Premises; (4) any injury or damage to any person or property occurring in, on or about the Premises or any part thereof; or (5) any failure on the part of Tenant to perform or comply with any of the covenants, agreements, terms or conditions contained in this Lease with which Tenant must comply or perform. In case any action or proceeding is brought against Landlord or any of the Landlord Related Parties by reason of any of the foregoing, Tenant shall, at Tenant's sole cost and expense, resist and defend such action or proceeding with counsel approved by Landlord or, at Landlord's option, reimburse Landlord for the cost of any counsel retained directly by Landlord to defend and resist such action or proceeding.

B. Landlord and the Landlord Related Parties shall not be liable for, and Tenant hereby waives, all claims for loss or damage to Tenant's business or damage to person or property sustained by Tenant or any person claiming by, through or under Tenant [including Tenant's principals, agents and employees (collectively, the "Tenant Related Parties")] resulting from any accident or occurrence in, on or about the Premises, the Building, the Property or the Project, including, without limitation, claims for loss, theft or damage resulting from: (1) the Premises, Building, Property or Project, or any equipment or appurtenances becoming out of repair; (2) wind or weather; (3) any defect in or failure to operate, for whatever reason, any sprinkler, heating or air-conditioning equipment, electric wiring, gas,

water or steam pipes; (4) broken glass; (5) the backing up of any sewer pipe or downspout; (6) the bursting, leaking or running of any tank, water closet, drain or other pipe; (7) the escape of steam or water; (8) water, snow or ice being upon or coming through the roof, skylight, stairs, doorways, windows, walks or any other place upon or near the Building; (9) the falling of any fixture, plaster, tile or other material; (10) any act, omission or negligence of other tenants, licensees or any other persons or occupants of the Building or of adjoining or contiguous buildings, or owners of adjacent or contiguous property or the public, or by construction of any private, public or quasi-public work; or (11) any other cause of any nature except, as to items 1-9, where such loss or damage is due to Landlord's willful failure to make repairs required to be made pursuant to other provisions of this Lease, after the expiration of a reasonable time after written notice to Landlord of the need for such repairs. To the maximum extent permitted by law, Tenant agrees to use and occupy the Premises, and to use such other portions of the Building as Tenant is herein given the right to use, at Tenant's own risk.

C. Except to the extent such losses, liabilities, obligations, damages, penalties, claims, costs, charges and expenses result from the negligence of Tenant or any Tenant Related Parties, Landlord shall indemnify and hold Tenant harmless from and against all liabilities, obligations, damages (other than consequential damages), penalties, claims, costs, charges and expenses, including, without limitation, reasonable attorneys' fees, which may be imposed upon, incurred by, or asserted against Tenant by any third parties and arising, directly or indirectly, out of or in connection with any of the following: (i) any work or thing done in, on or about the Common Areas or any part thereof by Landlord or any of its agents, contractors or employees; (ii) any use, non-use, possession, occupation, condition, operation, maintenance or management of the Common Areas or any part thereof by Landlord or any of its agents, contractors or employees; (iii) any act or omission of Landlord or any of its agents, contractors or employees; and (iv) any injury or damage to any person or property occurring in, on or about the Common Areas or any part thereof; provided, however, that in each case such liability, obligation, damage, penalty, claim, cost, charge or expense results from the negligence of Landlord and/or its agents, employees or contractors. In case any action or proceeding is brought against Tenant or any of the Tenant Related Parties by a third party by reason of any of the foregoing, Landlord shall, at Landlord's sole cost and expense, resist and defend such action or proceeding with counsel reasonably approved by Tenant.

XVI. TENANT'S INSURANCE.

A. At all times commencing on and after the earlier of the Commencement Date and the date Tenant or its agents, employees or contractors enters the Premises for any purpose, Tenant shall carry and maintain, at its sole cost and expense:

1. Commercial General Liability Insurance applicable to the Premises and its appurtenances providing, on an occurrence basis, a minimum combined single limit of Two Million Dollars ($2,000,000.00), with a contractual liability endorsement covering Tenant's indemnity obligations under this Lease.

2. All Risks of Physical Loss Insurance written at replacement cost value and with a replacement cost endorsement covering all of Tenant's Property in the Premises.

3. Workers' Compensation Insurance as required by the state in which the Premises is located and in amounts as may be required by applicable statute, and Employers' Liability Coverage of One Million Dollars ($1,000,000.00) per occurrence.

4. If and to the extent commonly required by other landlords of first class office buildings in the Los Angeles, California area, Landlord, in the exercise of prudent business judgment, shall have the right to require Tenant to obtain additional insurance coverage or different types of insurance.

B. Except for items for which Landlord is responsible under the Work Letter agreement, before any repairs, alterations, additions, improvements, or construction are undertaken by or on behalf of Tenant, Tenant shall carry and maintain, at its expense, or Tenant shall require any contractor performing work on the Premises to carry and maintain, at no expense to Landlord, in addition to Workers' Compensation Insurance as required by the jurisdiction in which the Building is located, All Risk Builder's Risk Insurance in the amount of the replacement cost of any alterations, additions or improvements (or such other amount reasonably required by Landlord) and Commercial General Liability Insurance (including, without limitation, Contractor's Liability coverage, Contractual Liability coverage and Completed Operations coverage,) written on an occurrence basis with a minimum combined single limit of Two Million Dollars ($2,000,000.00) and adding "the named Landlord hereunder (or any successor thereto), Equity Office Properties Trust, a Maryland real estate investment trust, EOP Operating Limited Partnership, a Delaware limited partnership, and their respective members, principals, beneficiaries, partners, officers, directors, employees, agents and any Mortgagee(s)", and other designees of Landlord as the interest of such designees shall appear, as additional insureds (collectively referred to as the "Additional Insureds").

C. Any company writing any insurance which Tenant is required to maintain or cause to be maintained pursuant to the terms of this Lease (all such insurance as well as any other insurance pertaining to the Premises or the operation of Tenant's business therein being referred to as "Tenant's Insurance"), as well as the form of such insurance, shall at all times be subject to Landlord's reasonable approval, and each such insurance company shall have an A.M. Best rating of "A-" or better and shall be licensed and qualified to do business in the state in which the Premises is located. All policies evidencing Tenant's Insurance (except for Workers' Compensation Insurance) shall specify Tenant as named insured and the Additional Insureds as additional insureds. Provided that the coverage afforded Landlord and any designees of Landlord shall not be reduced or otherwise adversely affected, all of Tenant's Insurance may be carried under a blanket policy covering the Premises and any other of Tenant's locations. All policies of Tenant's Insurance shall contain endorsements that the insurer(s) will give to Landlord and its designees at least thirty (30) days' advance written notice of any change, cancellation, termination or lapse of said Tenant's Insurance. Tenant shall be solely responsible for payment of premiums for all of Tenant's Insurance. Tenant shall deliver to Landlord at least fifteen (15) days prior to the time Tenant's Insurance is first required to be carried by Tenant, and upon renewals at least fifteen (15) days prior to the expiration of any such Tenant's Insurance coverage, a certificate of insurance of all policies procured by Tenant in compliance with its obligations under this Lease. The limits of Tenant's Insurance shall in no event limit Tenant's liability under this Lease.

D. Tenant shall not do or fail to do anything in, upon or about the Premises which will: (1) violate the terms of any of Landlord's insurance policies; (2) prevent Landlord from obtaining policies of insurance acceptable to Landlord or any Mortgagees; or (3) result in an increase in the rate of any insurance on the Premises, the Building, any other property of Landlord or of others within the Building. In the event of the occurrence of any of the events set forth in this Section, Tenant shall pay Landlord upon demand, as Additional Base Rental, the cost of the amount of any increase in any such insurance premium, provided that the acceptance by Landlord of such payment shall not be construed to be a waiver of any rights by Landlord in connection with a default by Tenant under the Lease. If Tenant fails to obtain the insurance coverage required by this Lease,

Landlord may, at its option, obtain such insurance for Tenant, and Tenant shall pay, as Additional Base Rental, the cost of all premiums thereon and all of Landlord's costs associated therewith.

XVII. SUBROGATION.

Notwithstanding anything set forth in this Lease to the contrary, Landlord and Tenant do hereby waive any and all right of recovery, claim, action or cause of action against the other, the other owners of the Project, their respective principals, beneficiaries, partners, officers, directors, agents, and employees, and, with respect to Landlord, its Mortgagee(s), for any loss or damage that may occur to Landlord or Tenant or any party claiming by, through or under Landlord or Tenant, as the case may be, with respect to their respective property, the Building, the Property, the Project, or the Premises or any addition or improvements thereto, or any contents therein, by reason of fire, the elements or any other cause, regardless of cause or origin, including the negligence of Landlord or Tenant, or their respective principals, beneficiaries, partners, officers, directors, agents and employees and, with respect to Landlord, its Mortgagee(s), which loss or damage is (or would have been, had the insurance required by this Lease been carried) covered by insurance. Since this mutual waiver will preclude the assignment of any such claim by subrogation (or otherwise) to an insurance company (or any other person), Landlord and Tenant each agree to give each insurance company which has issued, or in the future may issue, policies of insurance, with respect to the items covered by this waiver, written notice of the terms of this mutual waiver, and to have such insurance policies properly endorsed, if necessary, to prevent the invalidation of any of the coverage provided by such insurance policies by reason of such mutual waiver. For the purpose of the foregoing waiver, the amount of any deductible applicable to any loss or damage shall be deemed covered by, and recoverable by the insured under the insurance policy to which such deductible relates. In the event that Tenant is permitted to and self-insures any risk which would have been covered by the insurance required to be carried by Tenant pursuant to Article XVI of the Lease, or if Tenant fails to carry any insurance required to be carried by Tenant pursuant to Article XVI of this Lease, then all loss or damage to Tenant, its leasehold interest, its business, its property, the Premises or any additions or improvements thereto or contents thereof shall be deemed covered by and recoverable by Tenant under valid and collectible policies of insurance.

XVIII. LANDLORD'S INSURANCE.

Landlord shall maintain property insurance on the Building in such amounts as Landlord reasonably elects, provided that during the Lease Term Landlord shall maintain standard so-called "all risk" property insurance covering the Building in an amount equal to ninety percent (90%) of the replacement cost thereof (including Leasehold Improvements approved by Landlord) at the time in question. The cost of such insurance shall be included as a part of the Basic Costs, and payments for losses and recoveries thereunder shall be made solely to Landlord or the Mortgagees of Landlord as their interests shall appear.

XIX. CASUALTY DAMAGE.

A. If the Premises or any part thereof shall be damaged by fire or other casualty, Tenant shall give prompt written notice thereof to Landlord. In case the Building shall be so damaged that in Landlord's reasonable judgment, substantial alteration or reconstruction of the Building shall be required (whether or not the Premises has been damaged by such casualty) or in the event Landlord will not be permitted by applicable law to rebuild the Building in substantially the same form as existed prior to the fire or casualty or in the event the Premises has been materially damaged and there is less than one (1) year of the Lease Term remaining on the date of such casualty or in the event any Mortgagee should require that the insurance proceeds payable as a result of a casualty be applied to the payment of the mortgage debt or in the event of any material uninsured loss to the Building, Landlord may, at its option, terminate this Lease by notifying Tenant in writing of such termination within ninety (90) days after the date of such casualty. Such termination shall be effective as of the date of fire or casualty, with respect to any portion of the Premises that was rendered untenantable, and the effective date of termination specified in Landlord's notice,

with respect to any portion of the Premises that remained tenantable. In addition to Landlord's rights to terminate as provided herein, Tenant shall have the right to terminate this Lease if: (1) a substantial portion of the Premises has been damaged by fire or other casualty and such damage cannot reasonably be repaired within sixty (60) days after the date of such fire or other casualty; (2) there is less than one (1) year of the Lease Term remaining on the date of such casualty; (3) the casualty was not caused by the negligence or willful misconduct of Tenant or its agents, employees or contractors; and (4) Tenant provides Landlord with written notice of its intent to terminate within thirty (30) days after the date of the fire or other casualty. If neither Landlord nr Tenant elect to terminate this Lease, Landlord shall commence and proceed with reasonable diligence to restore the Building (provided that Landlord shall not be required to restore any unleased premises in the Building) and the Leasehold Improvements (but excluding any improvements, alterations or additions made by Tenant in violation of this Lease) located within the Premises, if any, which Landlord has insured to substantially the same condition they were in immediately prior to the happening of the casualty. Notwithstanding the foregoing, Landlord's obligation to restore the Building, and the Leasehold Improvements, if any, shall not require Landlord to expend for such repair and restoration work more than the insurance proceeds actually received by the Landlord as a result of the casualty. When repairs to the Premises have been completed by Landlord, Tenant shall complete the restoration or replacement of all Tenant's Property necessary to permit Tenant's reoccupancy of the Premises, and Tenant shall present Landlord with evidence satisfactory to Landlord of Tenant's ability to pay such costs prior to Landlord's commencement of repair and restoration of the Premises. Landlord shall not be liable for any inconvenience or annoyance to Tenant or injury to the business of Tenant resulting in any way from such damage or the repair thereof, except that, subject to the provisions of the next sentence, Landlord shall allow Tenant a fair diminution of Rent on a per diem basis during the time and to the extent any damage to the Premises causes the Premises to be rendered untenantable and not used by Tenant. If the Premises or any other portion of the Building is damaged by fire or other casualty resulting from the negligence of Tenant or any Tenant Related Parties, the Rent hereunder shall not be diminished during any period during which the Premises, or any portion thereof, is untenantable (except to the extent Landlord is entitled to be reimbursed by the proceeds of any rental interruption insurance), and Tenant shll be liable to Landlord for the cost of the repair and restoration of the Building caused thereby to the extent such cost and expense is not covered by insurance proceeds. Landlord and Tenant hereby waive the provisions of any law from time to time in effect during the Lease Term relating to the effect upon leases of partial or total destruction of leased property. Landlord and Tenant agree that their respective rights in the event of any damage to or destruction of the Premises shall be those specifically set forth herein.

B. Notwithstanding anything in this Article XIX to the contrary, if all or any portion of the Premises shall be made untenantable by a fire or other casualty, Landlord shall with reasonable promptness, cause an architect or general contractor selected by Landlord to estimate the amount of time required to substantially complete repair and restoration of the Premises and make the Premises tenantable again, using standard working methods (the "Completion Estimate"). If the Completion Estimate indicates that the Premises cannot be made tenantable within nine (9) months from the date the repair and restoration is started, either party shall have the right to terminate this Lease by giving written notice to the other of such election within ten (10) days after its receipt of the Completion Estimate. Tenant, however, shall not have the right to terminate this Lease in the event that the fire or casualty in question was caused by the negligence or intentional misconduct of Tenant or any Tenant Related Parties. If the Completion Estimate indicates that the Premises can be made tenantable within nine (9) months from the date the repair and restoration is started and Landlord has not otherwise exercised its right to terminate the Lease pursuant to the terms hereof, or if the Completion Estimate indicates that the Premises

cannot be made tenantable within nine (9) months but neither party terminates this Lease pursuant to this Article XIX, Landlord shall proceed with reasonable promptness to repair and restore the Premises.

XX. DEMOLITION.

Intentionally Omitted.

XXI. CONDEMNATION.

If (a) the whole or any substantial part of the Premises or (b) any portion of the Building, the Property or the Project which would leave the remainder of the Building unsuitable for use as an office building comparable to its use on the Commencement Date, shall be taken or condemned for any public or quasi-public use under governmental law, ordinance or regulation, or by right of eminent domain, or by private purchase in lieu thereof, then Landlord may, at its option, terminate this Lease effective as of the date the physical taking of said Premises or said portion of the Building, Property or Project shall occur. In the event this Lease is not terminated, the Rentable Area of the Building, the Rentable Area of the Premises, the Building's allocable share, and Tenant's Pro Rata Share shall be appropriately adjusted. In addition, Rent for any portion of the Premises so taken or condemned shall be abated during the unexpired term of this Lease effective when the physical taking of said portion of the Premises shall occur. All compensation awarded for any such taking or condemnation, or sale proceeds in lieu thereof, shall be the property of Landlord, and Tenant shall have no claim thereto, the same being hereby expressly waived by Tenant, except for any portions of such award or proceeds which are specifically allocated by the condemning or purchasing party for the taking of or damage to trade fixtures of Tenant, which Tenant specifically reserves to itself. In addition, Tenant may file a claim at its sole cost and expense and receive an award for the Tenant's Property and Tenant's reasonable relocation expenses, provided the filing of any claim for relocation expenses does not adversely affect or diminish the award which would otherwise have been received by Landlord had Tenant not filed such a claim and received such award.

XXII. EVENTS OF DEFAULT.

The following events shall be deemed to be events of default under this Lease:

A. Tenant shall fail to pay when due any Base Rental, Additional Base Rental or other Rent under this Lease and such failure shall continue for three (3) days after written notice from Landlord (hereinafter sometimes referred to as a "Monetary Default").

B. Any failure by Tenant (other than a Monetary Default) to comply with any term, provision or covenant of this Lease, including, without limitation, the rules and regulations, which failure is not cured within twenty (20) days after delivery to Tenant of notice of the occurrence of such failure, provided that if any such failure creates a hazardous condition, such failure must be cured immediately.

C. Tenant or any Guarantor shall become insolvent, or shall make a transfer in fraud of creditors, or shall commit an act of bankruptcy or shall make an assignment for the benefit of creditors, or Tenant or any Guarantor shall admit in writing its inability to pay its debts as they become due.

D. Tenant or any Guarantor shall file a petition under any section or chapter of the United States Bankruptcy Code, as amended, pertaining to bankruptcy, or under any similar law or statute of the United States or any State thereof, or Tenant or any Guarantor shall be adjudged bankrupt or insolvent in proceedings filed against Tenant or any Guarantor thereunder; or a petition or answer proposing the adjudication of Tenant or any Guarantor as a debtor or its reorganization under any present or future federal or state bankruptcy or similar law shall be filed in any court and such petition or answer shall not be discharged or denied within sixty (60) days after the filing thereof.

E. A receiver or trustee shall be appointed for all or substantially all of the assets of Tenant or any Guarantor or of the Premises or of any of Tenant's Property located thereon in any proceeding brought by Tenant or any Guarantor, or any such receiver or trustee shall be appointed in any proceeding brought against Tenant or any Guarantor and shall not be discharged within sixty (60) days after such appointment or Tenant or such Guarantor shall consent to or acquiesce in such appointment.

F. The leasehold estate hereunder shall be taken on execution or other process of law or equity in any action against Tenant.

G. Intentionally Omitted.

H. Intentionally Omitted.

I. The liquidation, termination, dissolution, forfeiture of right to do business, or death of Tenant.

J. Intentionally Omitted.

XXIII. REMEDIES.

A. Upon the occurrence of any event or events of default under this Lease, whether enumerated in Article XXII or not, Landlord shall have the option to pursue any one or more of the following remedies without any notice (except as expressly prescribed herein) or demand whatsoever (and without limiting the generality of the foregoing, Tenant hereby specifically waives notice and demand for payment of Rent or other obligations and waives any and all other notices or demand requirements imposed by applicable law):

1. Terminate this Lease and Tenant's right to possession of the Premises and recover from Tenant an award of damages equal to the sum of the following:

(a) The Worth at the Time of Award of the unpaid Rent which had been earned at the time of termination;

(b) The Worth at the Time of Award of the amount by which the unpaid Rent which would have been earned after termination until the time of award exceeds the amount of such Rent loss that Tenant affirmatively proves could have been reasonably avoided;

(c) The Worth at the Time of Award of the amount by which the unpaid Rent for the balance of the Lease Term after the time of award exceeds the amount of such Rent loss that Tenant affirmatively proves could be reasonably avoided;

(d) Any other amount necessary to compensate Landlord for all the detriment either proximately caused by Tenant's failure to perform Tenant's obligations under this Lease or which in the ordinary course of things would be likely to result therefrom; and

(e) All such other amounts in addition to or in lieu of the foregoing as may be permitted from time to time under applicable law.

The "Worth at the Time of Award" of the amounts referred to in parts (a) and (b) above, shall be computed by allowing interest at the rate specified in Article IV.E., and the "Worth at the Time of Award" of the amount referred to in part (c), above, shall be computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus one percent (1%);

2. Employ the remedy described in California Civil Code Section 1951.4 (Landlord may continue this Lease in effect after Tenant's breach and abandonment and recover Rent as it becomes due, if Tenant has the right to sublet or assign, subject only to reasonable limitations); or

3. Notwithstanding Landlord's exercise of the remedy described in California Civil Code Section 1951.4 in respect of an event or events of default, at such time thereafter as Landlord may elect in writing, to terminate this Lease and Tenant's right to possession of the Premises and recover an award of damages as provided above in Paragraph XXIII.A.1.

B. The subsequent acceptance of Rent hereunder by Landlord shall not be deemed to be a waiver of any preceding breach by Tenant of any term, covenant or condition of this Lease, other than the failure of Tenant to pay the particular Rent so accepted, regardless of Landlord's knowledge of such preceding breach at the time of acceptance of such Rent. No waiver by Landlord of any breach hereof shall be effective unless such waiver is in writing and signed by Landlord.

C. TENANT HEREBY WAIVES ANY AND ALL RIGHTS CONFERRED BY SECTION 3275 OF THE CIVIL CODE OF CALIFORNIA AND BY SECTIONS 1174 (C) AND 1179 OF THE CODE OF CIVIL PROCEDURE OF CALIFORNIA AND ANY AND ALL OTHER LAWS AND RULES OF LAW FROM TIME TO TIME IN EFFECT DURING THE LEASE TERM PROVIDING THAT TENANT SHALL HAVE ANY RIGHT TO REDEEM, REINSTATE OR RESTORE THIS LEASE FOLLOWING ITS TERMINATION BY REASON OF TENANT'S BREACH. TENANT ALSO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, THE RIGHT TO TRIAL BY JURY IN ANY LITIGATION ARISING OUT OF OR RELATING TO THIS LEASE.

D. No right or remedy herein conferred upon or reserved to Landlord is intended to be exclusive of any other right or remedy, and each and every right and remedy shall be cumulative and in addition to any other right or remedy given hereunder or now or hereafter existing by agreement, applicable law or in equity. In addition to other remedies provided in this Lease, Landlord shall be entitled, to the extent permitted by applicable law, to injunctive relief, or to a decree compelling performance of any of the covenants, agreements, conditions or provisions of this Lease, or to any other remedy allowed to Landlord at law or in equity. Forbearance by Landlord to enforce one or more of the remedies herein provided upon an event of default shall not be deemed or construed to constitute a waiver of such default.

E. This Article XXIII shall be enforceable to the maximum extent such enforcement is not prohibited by applicable law, and the unenforceability of any portion thereof shall not thereby render unenforceable any other portion.

XXIV. LIMITATION OF LIABILITY.

NOTWITHSTANDING ANYTHING TO THE CONTRARY CONTAINED IN THIS LEASE, THE LIABILITY OF LANDLORD (AND OF ANY SUCCESSOR LANDLORD HEREUNDER) TO TENANT SHALL BE LIMITED TO THE INTEREST OF LANDLORD IN THE BUILDING, AND TENANT AGREES TO LOOK SOLELY TO LANDLORD'S INTEREST IN THE BUILDING FOR THE RECOVERY OF ANY JUDGMENT OR AWARD AGAINST THE LANDLORD, IT BEING INTENDED THAT NEITHER LANDLORD NOR ANY MEMBER, PRINCIPAL, PARTNER, SHAREHOLDER, OFFICER, DIRECTOR OR BENEFICIARY OF LANDLORD SHALL BE PERSONALLY LIABLE FOR ANY JUDGMENT OR DEFICIENCY. TENANT HEREBY COVENANTS THAT, PRIOR TO THE FILING OF ANY SUIT FOR AN ALLEGED DEFAULT BY LANDLORD HEREUNDER, IT SHALL GIVE LANDLORD AND ALL MORTGAGEES WHOM TENANT HAS BEEN NOTIFIED HOLD MORTGAGES OR DEED OF TRUST LIENS ON THE PROPERTY, BUILDING OR PREMISES NOTICE AND REASONABLE TIME TO CURE SUCH ALLEGED DEFAULT BY LANDLORD. "INTEREST OF LANDLORD IN THE BUILDING"

SHALL INCLUDE ANY ASSETS OF LANDLORD IN THE OPERATION OF THE BUILDING (PRIOR TO THE DISTRIBUTION OF THE SAME TO ANY PARTNER OR SHAREHOLDER OF LANDLORD OR ANY OTHER THIRD PARTY) SUCH AS ACCOUNTS RECEIVABLE, RENTS DUE FROM TENANTS, INSURANCE PROCEEDS, FIXTURES, EQUIPMENT, SUPPLIES, CLAIMS OF ANY NATURE, SORT OR DESCRIPTION AND ANY OTHER ITEMS DEEMED TO BE ASSETS IN CONNECTION WITH THE OWNERSHIP, MAINTENANCE AND OPERATION OF THE BUILDING.

XXV. NO WAIVER.

Failure of either party to declare any default immediately upon its occurrence, or delay in taking any action in connection with an event of default shall not constitute a waiver of such default, nor shall it constitute an estoppel against the non-defaulting party, but such non-defaulting party shall have the right to declare the default at any time during the continuance of the same and take such action as is lawful or authorized under this Lease. Failure by Landlord or Tenant to enforce its rights with respect to any one default shall not constitute a waiver of its rights with respect to any subsequent default. Receipt by Landlord of Tenant's keys to the Premises shall not constitute an acceptance or surrender of the Premises.

XXVI. EVENT OF BANKRUPTCY.

In addition to, and in no way limiting the other remedies set forth herein, Landlord and Tenant agree that if Tenant ever becomes the subject of a voluntary or involuntary bankruptcy, reorganization, composition, or other similar type proceeding under the federal bankruptcy laws, as now enacted or hereinafter amended, then:

A. "Adequate protection" of Landlord's interest in the Premises pursuant to the provisions of Section 361 and 363 (or their successor sections) of the Bankruptcy Code, 11 U.S.C. Section 101 et seq., (such Bankruptcy Code as amended from time to time being herein referred to as the "Bankruptcy Code"), prior to assumption and/or assignment of the Lease by Tenant shall include, but not be limited to all (or any part) of the following:

1. the continued payment by Tenant of the Base Rental and all other Rent due and owing hereunder and the performance of all other covenants and obligations hereunder by Tenant;

2. the furnishing of an additional/new security deposit by Tenant in the amount of three (3) times the then current monthly Base Rental.

B. "Adequate assurance of future performance" by Tenant and/or any assignee of Tenant pursuant to Bankruptcy Code Section 365 will include (but not be limited to) payment of an additional/new Security Deposit in the amount of three (3) times the then current monthly Base Rental payable hereunder.

C. Any person or entity to which this Lease is assigned pursuant to the provisions of the Bankruptcy Code, shall be deemed without further act or deed to have assumed all of the obligations of Tenant arising under this Lease on and after the effective date of such assignment. Any such assignee shall, upon demand by Landlord, execute and deliver to Landlord an instrument confirming such assumption of liability.

D. Notwithstanding anything in this Lease to the contrary, all amounts payable by Tenant to or on behalf of the Landlord under this Lease, whether or not expressly denominated as "Rent," shall constitute "rent" for the purposes of Section 502(b) (6) of the Bankruptcy Code.

E. If this Lease is assigned to any person or entity pursuant to the provisions of the Bankruptcy Code, any and all monies or other considerations payable or otherwise to be delivered to Landlord (including Base Rental and other Rent hereunder), shall be and remain the exclusive property of Landlord and shall not

constitute property of Tenant or of the bankruptcy estate of Tenant. Any and all monies or other considerations constituting Landlord's property under the preceding sentence not paid or delivered to Landlord shall be held in trust by Tenant or Tenant's bankruptcy estate for the benefit of Landlord and shall be promptly paid to or turned over to Landlord.

F. If Tenant assumes this Lease and proposes to assign the same pursuant to the provisions of the Bankruptcy Code to any person or entity who shall have made a bona fide offer to accept an assignment of this Lease on terms acceptable to the Tenant, then notice of such proposed offer/assignment, setting forth: (1) the name and address of such person or entity, (2) all of the terms and conditions of such offer, and (3) the adequate assurance to be provided Landlord to assure such person's or entity's future performance under the Lease, shall be given to Landlord by Tenant no later than twenty (20) days after receipt by Tenant, but in any event no later than ten (10) days prior to the date that Tenant shall make application to a court of competent jurisdiction for authority and approval to enter into such assumption and assignment, and Landlord shall thereupon have the prior right and option, to be exercised by notice to Tenant given at any time prior to the effective date of such proposed assignment, to accept an assignment of this Lease upon the same terms and conditions and for the same consideration, if any, as the bona fide offer made by such persons or entity, less any brokerage commission which may be payable out of the consideration to be paid by such person for the assignment of this Lease.

G. To the extent permitted by law, Landlord and Tenant agree that this Lease is a contract under which applicable law excuses Landlord from accepting performance from (or rendering performance to) any person or entity other than Tenant within the meaning of Sections 365(c) and 365(e) (2) of the Bankruptcy Code. Notwithstanding anything herein to the contrary, to the extent that the United States Bankruptcy Code supersedes any of the provisions of Article XXII, or stays the enforcement of any of Landlord's remedies under Article XXIII, the United States Bankruptcy Code shall control.

XXVII. WAIVER OF JURY TRIAL.

Landlord and Tenant hereby waive any right to a trial by jury in any action or proceeding based upon, or related to, the subject matter of this Lease. This waiver is knowingly, intentionally, and voluntarily made by Tenant, and Tenant acknowledges that neither Landlord nor any person acting on behalf of Landlord has made any representations of fact to induce this waiver of trial by jury or in any way to modify or nullify its effect. Tenant further acknowledges that it has been represented (or has had the opportunity to be represented) in the signing of this Lease and in the making of this waiver by independent legal counsel, selected of its own free will, and that it has had the opportunity to discuss this waiver with counsel.

XXVIII. RELOCATION.

Landlord, at its expense at any time before or during the Lease Term, shall be entitled to cause Tenant to relocate from the Premises to space containing approximately the same Rentable Area as the Premises (the "Relocation Space") within the Building or adjacent buildings within the same Project at any time upon sixty (60) days' prior written notice to Tenant. Landlord agrees to reimburse Tenant for all reasonable out-of-pocket costs incurred by Tenant in connection with the relocation and not paid directly by Landlord, including the cost of reprinting existing stationery and business cards and similar items of expense. Such a relocation shall not affect this Lease except that from and after the date of such relocation, "Premises" shall refer to the Relocation Space into which Tenant has been moved, rather than the original Premises as herein defined, and the Base Rental shall be adjusted so that immediately following such relocation the Base Rental for the Relocation Space per annum on a per square foot of Rentable Area basis shall be the same as the Base Rental per annum immediately prior to such relocation for the original Premises on a per square foot of Rentable Area basis. Tenant's Pro Rata Share shall also be adjusted in accordance with the formula set forth in this Lease.

XXIX. HOLDING OVER.

In the event of holding over by Tenant after expiration or other termination of this Lease or in the event Tenant continues to occupy the Premises after the termination of Tenant's right of possession pursuant to Articles XXII and XXIII hereof, occupancy of the Premises subsequent to such termination or expiration shall be that of a tenancy at sufferance and in no event for month-to-month or year-to-year. Tenant shall, throughout the entire holdover period, be subject to all the terms and provisions of this Lease and shall pay for its use and occupancy an amount (on a per month basis without reduction for any partial months during any such holdover) equal to 150% of the sum of the Base Rental and Additional Base Rental due for the period immediately preceding such holding over, provided that in no event shall Base Rental and Additional Base Rental during the holdover period be less than the fair market rental for the Premises. Notwithstanding the foregoing, if such holding over continues for more than fifteen (15) days, effective as of the sixteenth (16th) day, holdover rent shall increase to 200% of the sum of the Base Rental and Additional Base Rental due for the period immediately preceding such holding over. No holding over by Tenant or payments of money by Tenant to Landlord after the expiration of the Lease Term shall be construed to extend the Lease Term or prevent Landlord from recovery of immediate possession of the Premises by summary proceedings or otherwise. In addition to the obligation to pay the amounts set forth above during any such holdover period, Tenant also shall be liable to Landlord for all damage, including any consequential damage, which Landlord may suffer by reason of any holding over by Tenant, and Tenant shall indemnify Landlord against any and all claims made by any other tenant or prospective tenant against Landlord for delay by Landlord in delivering possession of the Premises to such other tenant or prospective tenant. Notwithstanding the foregoing, Tenant shall not be liable for consequential damages unless the holdover continues for thirty (30) or more days after the termination of this Lease or Tenant's right to possession.

XXX. SUBORDINATION TO MORTGAGES; ESTOPPEL CERTIFICATE.

Tenant accepts this Lease subject and subordinate to any mortgage, deed of trust, ground lease or other lien presently existing or hereafter arising upon the Premises, or upon the Building and/or the Property and to any renewals, modifications, refinancings and extensions thereof (any such mortgage, deed of trust, lease or other lien being hereinafter referred to as a "Mortgage", and the person or entity having the benefit of same being referred to hereinafter as a "Mortgagee"), but Tenant agrees that any such Mortgagee shall have the right at any time to subordinate such Mortgage to this Lease on such terms and subject to such conditions as such Mortgagee may deem appropriate in its discretion. This clause shall be self-operative and no further instrument of subordination shall be required. However, Landlord is hereby irrevocably vested with full power and authority to subordinate this Lease to any Mortgage, and Tenant agrees upon demand to execute such further instruments subordinating this Lease, acknowledging the subordination of this Lease or attorning to the holder of any such Mortgage as Landlord may request. The terms of this Lease are subject to approval by the Landlord's existing lender(s) and any lender(s) who, at the time of the execution of this Lease, have committed or are considering committing to Landlord to make a loan secured by all or any portion of the Property, and such approval is a condition precedent to Landlord's obligations hereunder. In the event that Tenant shall fail to execute any subordination or other agreement required by this Article within ten (10) days after request by Landlord, such failure shall be considered to be an event of default by Tenant entitling Landlord to exercise its rights and remedies under Article XXIII of this Lease. If any person shall succeed to all or part of Landlord's interests in the Premises whether by purchase, foreclosure, deed in lieu of foreclosure, power of sale, termination of lease or otherwise, and if and as so requested or required by such sucessor-in-interest, Tenant shall, without charge, attorn to such successor-in-interest. Tenant agrees that it will from time to time upon request by Landlord and, within fifteen (15) days of the date of such request, execute and deliver to such persons as Landlord shall request an estoppel certificate or other similar statement in recordable form certifying that this Lease is unmodified and in full force and effect (or if there have been modifications, that the same is in full force and effect as so modified), stating the dates to which Rent and other charges payable under this Lease have been paid, stating that Landlord is not in default hereunder (or if Tenant alleges a default stating the nature of such alleged default) and further stating such other matters as Landlord shall reasonably require. Landlord, in connection with

any previously approved Transfer by Tenant, agrees that it will from time to time, upon request by Tenant, execute and deliver to Tenant, or to any other person designated by Tenant, a statement certifying: (i) that this Lease is unmodified and in full force and effect (or if there has been a modification, that the same is in full force and effect as modified, and stating the modification); (ii) the dates, if any, to which the Rent and other sums and payments due under this Lease have been paid; and (iii) whether Tenant has breached the performance of any covenants, terms, and conditions on Tenant's part to be performed under this Lease, and the nature of Tenant's breach, if any.

XXXI. ATTORNEYS' FEES.

In the event that Landlord should retain counsel and/or institute any suit against Tenant for violation of or to enforce any of the covenants or conditions of this Lease, or should Tenant institute any suit against Landlord for violation of any of the covenants or conditions of this Lease, or should either party intervene in any suit in which the other is a party to enforce or protect its interest or rights hereunder, the prevailing party in any such suit shall be entitled to all of its costs, expenses and reasonable fees of its attorney(s) (if and to the extent permitted by law) in connection therewith.

XXXII. NOTICE.

Whenever any demand, request, approval, consent or notice ("Notice") shall or may be given to either of the parties by the other, each such Notice shall be in writing and shall be sent by registered or certified mail with return receipt requested, or sent by overnight courier service (such as Federal Express) at the respective addresses of the parties for notices as set forth in Section I.A.10. of this Lease, provided that if Tenant has vacated the Premises or is in default of this Lease Landlord may serve Notice by any manner permitted by law. Any Notice under this Lease delivered by registered or certified mail shall be deemed to have been given, delivered, received and effective on the earlier of (A) the third day following the day on which the same shall have been mailed with sufficient postage prepaid or (B) the delivery date indicated on the return receipt. Notice sent by overnight courier service shall be deemed given, delivered, received and effective upon the day after such Notice is delivered to or picked up by the overnight courier service. Either party may, at any time, change its Notice Address by giving the other party Notice stating the change and setting forth the new Notice Address.

XXXIII. LANDLORD'S LIEN.

Intentionally Omitted, provided that the deletion of this Article shall not be construed to be a waiver of Landlord's lien rights as provided by law.

XXXIV. EXCEPTED RIGHTS.

This Lease does not grant any rights to light or air over or about the Building. Landlord specifically excepts and reserves to itself the use of any roofs, the exterior portions of the Premises, all rights to the land and improvements below the improved floor level of the Premises, the improvements and air rights above the Premises and the improvements and air rights located outside the demising walls of the Premises, and such areas within the Premises as are required for installation of utility lines and other installations required to serve any occupants of the Building and the right to maintain and repair the same, and no rights with respect thereto are conferred upon Tenant unless otherwise specifically provided herein. Landlord further reserves to itself the right from time to time: (A) to change the Building's name or street address, provided that Landlord shall use reasonable efforts to provide Tenant with at least thirty (30) days prior notice with respect to a change in the Building's street address that will prohibit Tenant from receiving mail at the current address. In the event Landlord fails to provide Tenant with at least thirty (30) days prior notice, Landlord shall reimburse Tenant for the cost of replacing all business stationery on hand (not to exceed a two month's supply) at the effective date of such change; (B) to install, fix and maintain signs on the exterior and interior of the Building; (C) to designate and approve window coverings; (D) to make any decorations, alterations, additions, improvements to the Building, or any part thereof (including the Premises) which Landlord shall desire, or deem necessary for the safety, protection, preservation or improvement of the Building, or as Landlord may be required to do by law; (e) subject to the

terms of Article XII hereof, to have access to the Premises to perform its duties and obligations and to exercise its rights under this Lease; (f) to retain at all times and to use pass-keys to all locks within and into the Premises; (G) to approve the weight, size, or location of heavy equipment, or articles in and about the Premises; (H) to close or restrict access to the Building at all times other than Normal Business Hours subject to Tenant's right to admittance at all times under such regulations as Landlord may prescribe from time to time, or to close (temporarily or permanently) any of the entrances to the Building; (I) to change the arrangement and/or location of entrances of passageways, doors and doorways, corridors, elevators, stairs, toilets and public parts of the Building, provided that Landlord, subject to a temporary closure pursuant to Article XIX hereof, shall always provide Tenant with suitable ingress and egress to and from the Premises; (J) if Tenant has vacated the Premises during the last six (6) months of the Lease Term, to perform additions, alterations and improvements to the Premises in connection with a reletting or anticipated reletting thereof without being responsible or liable for the value or preservation of any then existing improvements to the Premises; and (K) to grant to anyone the exclusive right to conduct any business or undertaking in the Building, provided that the granting of such exclusive rights shall not: (1) restrict or interfere with Tenant's ability to conduct its business in the Premises; or (2) require Tenant to do business with any other Building tenant. Landlord, in accordance with Article XII hereof, shall have the right to enter the Premises in connection with the exercise of any of the rights set forth herein and such entry into the Premises and the performance of any work therein shall not constitute a constructive eviction or entitle Tenant to any abatement or reduction of Rent by reason thereof.

XXXV. SURRENDER OF PREMISES.

At the expiration or earlier termination of this Lease or Tenant's right of possession hereunder, Tenant shall remove all Tenant's Property from the Premises, remove all Required Removables designated by Landlord and quit and surrender the Premises to Landlord, broom clean, and in good order, condition and repair, ordinary wear and tear excepted. If Tenant fails to remove any of Tenant's Property within five (5) days after the termination of this Lease or Tenant's right to possession hereunder, Landlord, at Tenant's sole cost and expense, shall be entitled to remove and/or store such Tenant's Property and Landlord shall in no event be responsible for the value, preservation or safekeeping thereof. Tenant shall pay Landlord, upon demand, any and all expenses caused by such removal and all storage charges against such property so long as the same shall be in the possession of Landlord or under the control of Landlord. In addition, if Tenant fails to remove any Tenant's Property from the Premises or storage, as the case may be, within ten (10) days after written notice from Landlord, Landlord, at its option, may deem all or any part of such Tenant's Property to have been abandoned by Tenant and title thereof shall immediately pass to Landlord.

XXXVI. MISCELLANEOUS.

A. If any term or provision of this Lease, or the application thereof to any person or circumstance shall, to any extent, be invalid or unenforceable, the remainder of this Lease, or the application of such term or provision to persons or circumstances other than those as to which it is held invalid or unenforceable, shall not be affected thereby, and each term and provision of this Lease shall be valid and enforced to the fullest extent permitted by law. This Lease represents the result of negotiations between Landlord and Tenant, each of which has been (or has had opportunity to be) represented by counsel of its own selection, and neither of which has acted under duress or compulsion, whether legal, economic or otherwise. Consequently, Landlord and Tenant agree that the language in all parts of the Lease shall in all cases be construed as a whole according to its fair meaning and neither strictly for nor against Landlord or Tenant.

B. Tenant agrees not to record this Lease or any memorandum hereof without Landlord's prior written consent.

C. This Lease and the rights and obligations of the parties hereto shall be interpreted, construed, and enforced in accordance with the laws of the State of California.

D. Events of "Force Majeure" shall include strikes, riots, acts of God, shortages of labor or materials and war. Whenever a period of time is herein prescribed for the taking of any action by Landlord or Tenant, as the case may be, other than the payment of Rent or any other sums due hereunder, such party shall not be liable or responsible for, and there shall be excluded from the computation of such period of time, any delays due to events of Force Majeure.

E. Landlord shall have the right to transfer and assign, in whole or in part, all of its rights and obligations hereunder and in the Building, Property and Project referred to herein, and in such event and upon such transfer Landlord shall be released from any further obligations hereunder, and Tenant agrees to look solely to such successor in interest of Landlord for the performance of such obligations, provided that, any successor pursuant to a voluntary, third-party transfer (but not as part of an involuntary transfer resulting from a foreclosure or deed in lieu thereof) shall have assumed Landlord's obligations under this Lease either by contractual obligation, assumption agreement or by operation of law.

F. Tenant hereby represents to Landlord that it has dealt directly with and only with the Broker as a broker in connection with this Lease. Tenant agrees to indemnify and hold Landlord and the Landlord Related Parties harmless from all claims of any brokers claiming to have represented Tenant in connection with this Lease. Landlord agrees to indemnify and hold Tenant and the Tenant Related Parties harmless from all claims of any brokers claiming to have represented Landlord in connection with this Lease.

G. If there is more than one Tenant, or if the Tenant is comprised of more than one person or entity, the obligations hereunder imposed upon Tenant shall be joint and several obligations of all such parties. All notices, payments, and agreements given or made by, with or to any one of such persons or entities shall be deemed to have been given or made by, with or to all of them.

H. In the event Tenant is a corporation (including any form of professional association), partnership (general or limited), or other form of organization other than an individual (each such entity is individually referred to herein as an "Organizational Entity"), then Tenant hereby covenants, warrants and represents: (1) that such individual is duly authorized to execute or attest and deliver this Lease on behalf of Tenant in accordance with the organizational documents of Tenant; (2) that this Lease is binding upon Tenant; (3) that Tenant is duly organized and legally existing in the state of its organization, and is qualified to do business in the State of California; and (4) that the execution and delivery of this Lease by Tenant will not result in any breach of, or constitute a default under any mortgage, deed of trust, lease, loan, credit agreement, partnership agreement or other contract or instrument to which Tenant is a party or by which Tenant may be bound. If Tenant is an Organizational Entity, upon request, Tenant will, prior to the Commencement Date, deliver to Landlord true and correct copies of all organizational documents of Tenant, including, without limitation, copies of an appropriate resolution or consent of Tenant's board of directors or other appropriate governing body of Tenant authorizing or ratifying the execution and delivery of this Lease, which resolution or consent will be duly certified to Landlord's satisfaction by an appropriate individual with authority to certify such documents, such as the secretary or assistant secretary or the managing general partner of Tenant.

I. Tenant acknowledges that the financial capability of Tenant to perform its obligations hereunder is material to Landlord and that Landlord would not enter into this Lease but for its belief, based on its review of Tenant's financial statements, that Tenant is capable of performing such financial obligations. Tenant hereby represents, warrants and certifies to Landlord that its financial statements previously furnished to Landlord were at the time given true and correct in all material respects and that there have been no material subsequent changes thereto as of the date of this Lease. At any time during the Lease Term,

Tenant shall provide Landlord, upon ten (10) days' prior written notice from Landlord, with a current financial statement and financial statements of the two (2) years prior to the current financial statement year and such other information as Landlord or its Mortgagee may request in order to create a "business profile" of Tenant and determine Tenant's ability to fulfill its obligations under this Lease. Such statement shall be prepared in accordance with generally accepted accounting principles and, if such is the normal practice of Tenant, shall be audited by an independent certified public accountant.

J. Except as expressly otherwise herein provided, with respect to all required acts of Tenant, time is of the essence of this Lease. This Lease shall create the relationship of Landlord and Tenant between the parties hereto.

K. This Lease and the covenants and conditions herein contained shall inure to the benefit of and be binding upon Landlord and Tenant and their respective permitted successors and assigns.

L. Notwithstanding anything to the contrary contained in this Lease, the expiration of the Lease Term, whether by lapse of time or otherwise, shall not relieve Tenant from Tenant's obligations accruing prior to the expiration of the Lease Term, and such obligations shall survive any such expiration or other termination of the Lease Term.

M. The headings and titles to the paragraphs of this Lease are for convenience only and shall have no effect upon the construction or interpretation of any part hereof.

N. LANDLORD HAS DELIVERED A COPY OF THIS LEASE TO TENANT FOR TENANT'S REVIEW ONLY, AND THE DELIVERY HEREOF DOES NOT CONSTITUTE AN OFFER TO TENANT OR OPTION. THIS LEASE SHALL NOT BE EFFECTIVE UNTIL AN ORIGINAL OF THIS LEASE EXECUTED BY BOTH LANDLORD AND TENANT AND AN ORIGINAL GUARANTY, IF ANY, EXECUTED BY EACH GUARANTOR IS DELIVERED TO AND ACCEPTED BY LANDLORD.

O. QUIET ENJOYMENT. Tenant shall, and may peacefully have, hold, and enjoy the Premises, subject to the other terms of this Lease (including, without limitation, Article XXX hereof), provided that Tenant pays the Rent herein recited to be paid by Tenant and performs all of Tenant's covenants and agreements herein contained. This covenant and any and all other covenants of Landlord shall be binding upon Landlord and its successors only during its or their respective periods of ownership of the Landlord's interest hereunder.

XXXVII. ENTIRE AGREEMENT.

This Lease agreement, including the following Exhibits:

EXHIBIT A	Outline and Location of Premises
EXHIBIT A-2	Outline and Location of Project
EXHIBIT B	Rules and Regulations
EXHIBIT C	Commencement Letter
EXHIBIT D	Work Letter Agreement
EXHIBIT E	Additional Terms
EXHIBIT F	Parking Agreement
EXHIBIT G	Janitorial Specifications

constitutes the entire agreement between the parties hereto with respect to the subject matter of this Lease and supersedes all prior agreements and understandings between the parties related to the Premises, including all lease proposals, letters of intent and similar documents. TENANT EXPRESSLY ACKNOWLEDGES AND AGREES THAT LANDLORD HAS NOT MADE AND IS NOT MAKING, AND TENANT, IN EXECUTING AND DELIVERING THIS LEASE, IS NOT RELYING UPON, ANY WARRANTIES, REPRESENTATIONS, PROMISES OR STATEMENTS, EXCEPT TO THE EXTENT THAT THE SAME ARE EXPRESSLY SET FORTH

IN THIS LEASE. ALL UNDERSTANDINGS AND AGREEMENTS HERETOFORE MADE BETWEEN THE PARTIES ARE MERGED IN THIS LEASE WHICH ALONE FULLY AND COMPLETELY EXPRESSES THE AGREEMENT OF THE PARTIES, NEITHER PARTY RELYING UPON ANY STATEMENT OR REPRESENTATION NOT EMBODIED IN THIS LEASE. THIS LEASE MAY BE MODIFIED ONLY BY A WRITTEN AGREEMENT SIGNED BY LANDLORD AND TENANT. LANDLORD AND TENANT EXPRESSLY AGREE THAT THERE ARE AND SHALL BE NO IMPLIED WARRANTIES OF MERCHANTABILITY, HABITABILITY, SUITABILITY, FITNESS FOR A PARTICULAR PURPOSE OR OF ANY OTHER KIND ARISING OUT OF THIS LEASE, ALL OF WHICH ARE HEREBY WAIVED BY TENANT, AND THAT THERE ARE NO WARRANTIES WHICH EXTEND BEYOND THOSE EXPRESSLY SET FORTH IN THIS LEASE.

IN WITNESS WHEREOF, Landlord and Tenant have executed this Lease as of the day and year first above written.

LANDLORD: EOP-PASADENA TOWERS, L.L.C., A DELAWARE LIMITED LIABILITY COMPANY DOING BUSINESS AS EOP-PASADENA TOWERS, LLC, A DELAWARE LIMITED LIABILITY COMPANY

BY: EOP Operating Limited Partnership, a Delaware limited partnership, its managing member

BY: Equity Office Properties Trust, a Maryland real estate investment trust, its managing general partner

/s/ PETER H. ADAMS

Name: Peter H. Adams

Title: Sr. Vice President

TENANT: ACACIA RESEARCH CORPORATION, A CALIFORNIA CORPORATION

/s/ KATHRYN KING-VAN WIE

Name: Kathryn King-Van Wie

Title: Chief Operating Officer

By: /s/ R. BRUCE STEWART

Name: R. Bruce Stewart

Title: Chief Financial Officer

EXHIBIT A

OUTLINE AND LOCATION OF PREMISES

This Exhibit is attached to and made a part of the Lease dated the day of _____, 1998, by and between EOP-PASADENA TOWERS, L.L.C., A DELAWARE LIMITED LIABILITY COMPANY DOING BUSINESS AS EOP-PASADENA TOWERS, LLC, A DELAWARE LIMITED LIABILITY COMPANY ("Landlord"), and ACACIA RESEARCH CORPORATION, A CALIFORNIA CORPORATION ("Tenant") for space in the Building located at 55 South Lake Avenue, Pasadena, California.

Building: Pasadena Towers II
Suite No.: 650
Rentable Area of the Premises: 5,449 sq. ft.
Target Commencement Date: May 1, 1998
Lease Term: 60 months

EXHIBIT A-2

PROJECT

EXHIBIT B
BUILDING RULES AND REGULATIONS

The following rules and regulations shall apply, where applicable, to the Premises, the Building, the parking garage associated therewith (if any), the Property and the appurtenances thereto:

1. Sidewalks, doorways, vestibules, halls, stairways and other similar areas shall not be obstructed by Tenant or used by Tenant for any purpose other than ingress and egress to and from the Premises. No rubbish, litter, trash, or material of any nature shall be placed, emptied, or thrown in those areas. At no time shall Tenant permit Tenant's employees to loiter in common areas or elsewhere in or about the Building or Property.

2. Plumbing fixtures and appliances shall be used only for the purposes for which designed, and no sweepings, rubbish, rags or other unsuitable material shall be thrown or placed therein. Damage resulting to any such fixtures or appliances from misuse by Tenant or its agents, employees or invitees, shall be paid for by Tenant, and Landlord shall not in any case be responsible therefor.

3. No signs, advertisements or notices shall be painted or affixed on or to any windows, doors or other parts of the Building, except those of such color, size, style and in such places as shall be first approved in writing by Landlord. No nails, hooks or screws shall be driven or inserted into any part of the Premises or Building except by the Building maintenance personnel, nor shall any part of the Building be defaced by Tenant.

4. Landlord may provide and maintain in the first floor (main lobby) of the Building an alphabetical directory board listing all tenants, and no other directory shall be permitted unless previously consented to by Landlord in writing.

5. Tenant shall not place any additional lock or locks on any door in the Premises or Building without Landlord's prior written consent. A reasonable number of keys to the locks on the doors in the Premises shall be furnished by Landlord to Tenant at the cost of Tenant, and Tenant shall not have any duplicate keys made. All keys shall be returned to Landlord at the expiration or earlier termination of this Lease.

6. All contractors, contractor's representatives, and installation technicians performing work in the Building shall be subject to Landlord's prior approval and shall be required to comply with Landlord's standard rules, regulations, policies and procedures, as the same may be revised from time to time. Tenant shall be solely responsible for complying with all applicable laws, codes and ordinances pursuant to which said work shall be performed.

7. Movement in or out of the Building of furniture or office equipment, or dispatch or receipt by Tenant of any merchandise or materials which require the use of elevators, stairways, lobby areas, or loading dock areas, shall be restricted to hours designated by Landlord. Tenant must seek Landlord's prior approval by providing in writing a detailed listing of any such activity. If approved by Landlord, such activity shall be under the supervision of Landlord and performed in the manner stated by Landlord. Landlord may prohibit any article, equipment or any other item from being brought into the Building. Tenant is to assume all risk for damage to articles moved and injury to any persons resulting from such activity. If any equipment, property, and/or personnel of Landlord or of any other tenant is damaged or injured as a result of or in connection with such activity, Tenant shall be solely liable for any and all damage or loss resulting therefrom.

8. Landlord shall have the power to prescribe the weight and position of safes and other heavy equipment or items, which in all cases shall not in the opinion of Landlord exceed acceptable floor loading and weight distribution requirements.

All damage done to the Building by the installation, maintenance, operation, existence or removal of any property of Tenant shall be repaired at the expense of Tenant.

9. Corridor doors, when not in use, shall be kept closed.

10. Tenant shall not: (1) make or permit any improper, objectionable or unpleasant noises or odors in the Building, or otherwise interfere in any way with other tenants or persons having business with them; (2) solicit business or distribute, or cause to be distributed, in any portion of the Building any handbills, promotional materials or other advertising; or (3) conduct or permit any other activities in the Building that might constitute a nuisance.

11. No animals, except seeing eye dogs, shall be brought into or kept in, on or about the Premises.

12. No inflammable, explosive or dangerous fluid or substance shall be used or kept by Tenant in the Premises or Building. Tenant shall not, without Landlord's prior written consent, use, store, install, spill, remove, release or dispose of within or about the Premises or any other portion of the Property, any asbestos-containing materials or any solid, liquid or gaseous material now or hereafter considered toxic or hazardous under the provisions of 42 U.S.C. Section 9601 et seq. or any other applicable environmental law which may now or hereafter be in effect. If Landlord does give written consent to Tenant pursuant to the foregoing sentence, Tenant shall comply with all applicable laws, rules and regulations pertaining to and governing such use by Tenant, and shall remain liable for all costs of cleanup or removal in connection therewith.

13. Tenant shall not use or occupy the Premises in any manner or for any purpose which would injure the reputation or impair the present or future value of the Premises or the Building; without limiting the foregoing, Tenant shall not use or permit the Premises or any portion thereof to be used for lodging, sleeping or for any illegal purpose.

14. Tenant shall not take any action which would violate Landlord's labor contracts affecting the Building or which would cause any work stoppage, picketing, labor disruption or dispute, or any interference with the business of Landlord or any other tenant or occupant of the Building or with the rights and privileges of any person lawfully in the Building. Tenant shall take any actions necessary to resolve any such work stoppage, picketing, labor disruption, dispute or interference and shall have pickets removed and, at the request of Landlord, immediately terminate at any time any construction work being performed in the Premises giving rise to such labor problems, until such time as Landlord shall have given its written consent for such work to resume. Tenant shall have no claim for damages of any nature against Landlord or any of the Landlord Related Parties in connection therewith, nor shall the Commencement Date of the Lease Term be extended as a result thereof.

15. Tenant shall utilize the termite and pest extermination service designated by Landlord to control termites and pests in the Premises. Except as included in Basic Costs, Tenant shall bear the cost and expense of such extermination services.

16. Tenant shall not install, operate or maintain in the Premises or in any other area of the Building, any electrical equipment which does not bear the U/L (Underwriters Laboratories) seal of approval, or which would overload the electrical system or any part thereof beyond its capacity for proper, efficient and safe operation as determined by Landlord, taking into consideration the overall electrical system and the present and future requirements therefor in the Building. Tenant shall not furnish any cooling or heating to the Premises, including, without limitation, the use of any electronic or gas heating devices, without Landlord's prior written consent. Tenant shall not use more than its proportionate share of telephone lines available to service the Building.

17. Tenant shall not operate or permit to be operated on the Premises any coin or token operated vending machine or similar device (including, without limitation, telephones, lockers, toilets, scales, amusement devices and machines for sale of beverages, foods, candy, cigarettes or other goods), except for those vending machines or similar devices which are for the sole and exclusive use of Tenant's employees, and then only if such operation does not violate the lease of any other tenant of the Building.

18. Bicycles and other vehicles are not permitted inside or on the walkways outside the Building, except in those areas specifically designated by Landlord for such purposes.

19. Landlord may from time to time adopt appropriate systems and procedures for the security or safety of the Building, its occupants, entry and use, or its contents. Tenant, Tenant's agents, employees, contractors, guests and invitees shall comply with Landlord's reasonable requirements relative thereto.

20. Landlord shall have the right to prohibit the use of the name of the Building or any other publicity by Tenant that in Landlord's opinion may tend to impair the reputation of the Building or its desirability for Landlord or other tenants. Upon written notice from Landlord, Tenant will refrain from and/or discontinue such publicity immediately.

21. Tenant shall carry out Tenant's permitted repair, maintenance, alterations, and improvements in the Premises only during times agreed to in advance by Landlord and in a manner which will not unreasonably interfere with the rights of other tenants in the Building.

22. Canvassing, soliciting, and peddling in or about the Building is prohibited. Tenant shall cooperate and use its best efforts to prevent the same.

23. At no time shall Tenant permit or shall Tenant's agents, employees, contractors, guests, or invitees smoke in any common area of the Building, unless such common area has been declared a designated smoking area by Landlord, or to allow any smoke from the Premises to emanate into the common areas or any other tenant's premises. Landlord shall have the right at any time to designate the Building as a non-smoking building.

24. Tenant shall observe Landlord's rules with respect to maintaining standard window coverings at all windows in the Premises so that the Building presents a uniform exterior appearance. Tenant shall ensure that to the extent reasonably practicable, window coverings are closed on all windows in the Premises while they are exposed to the direct rays of the sun.

25. All deliveries to or from the Premises shall be made only at such times, in the areas and through the entrances and exits designated for such purposes by Landlord. Tenant shall not permit the process of receiving deliveries to or from the Premises outside of said areas or in a manner which may interfere with the use by any other tenant of its premises or of any common areas, any pedestrian use of such area, or any use which is inconsistent with good business practice.

26. The work of cleaning personnel shall not be hindered by Tenant after 5:30 P.M., and such cleaning work may be done at any time when the offices are vacant. Windows, doors and fixtures may be cleaned at any time. Tenant shall provide adequate waste and rubbish receptacles necessary to prevent unreasonable hardship to Landlord regarding cleaning service.

EXHIBIT C
COMMENCEMENT LETTER

Date

Acacia Research Corporation
55 South Lake
Suite 650
Pasadena, California 91101

Re: Commencement Letter with respect to that certain Lease dated _____, 1998 by and between EOP-PASADENA TOWERS, L.L.C., A DELAWARE LIMITED LIABILITY COMPANY DOING BUSINESS AS EOP-PASADENA TOWERS, LLC, A DELAWARE LIMITED LIABILITY COMPANY, as Landlord, and ACACIA RESEARCH CORPORATION, A CALIFORNIA CORPORATION as Tenant, for 5,449 square feet of Rentable Area on the sixth (6th) floor of the Building located at 55 South Lake Avenue, Pasadena, California.

Dear :

In accordance with the terms and conditions of the above referenced Lease, Tenant hereby accepts possession of the Premises and agrees as follows:

1. The Commencement Date of the Lease is:
---

2. The Termination Date of the Lease is:

Please acknowledge your acceptance of possession and agreement to the terms set forth above by signing all three (3) copies of this Commencement Letter in the space provided and returning two (2) fully executed copies of the same to my attention.

Sincerely,

- - ---
Property Manager

Agreed and Accepted:

Tenant: ACACIA RESEARCH CORPORATION, A CALIFORNIA CORPORATION

By:

Name:

Title:

Date:

By:

Name:

Title:

Date:

EXHIBIT D

WORK LETTER

This Exhibit is attached to and made a part of the Lease dated _____, 1998, by and between EOP-PASADENA TOWERS, L.L.C., A DELAWARE LIMITED LIABILITY COMPANY DOING BUSINESS AS EOP-PASADENA TOWERS, LLC, A DELAWARE LIMITED LIABILITY COMPANY ("Landlord"), and ACACIA RESEARCH CORPORATION, A CALIFORNIA CORPORATION ("Tenant") for space in the Building located at 55 South Lake Avenue, Pasadena, California.

1. This Work Letter shall set forth the obligations of Landlord and Tenant with respect to the preparation of the Premises for Tenant's occupancy. All improvements described in this Work Letter to be constructed in and upon the Premises by Landlord are hereinafter referred to as the "Landlord Work." It is agreed that construction of the Landlord Work will be completed at Tenant's sole cost and expense, subject to the Allowance (as defined below). Landlord shall bid the Landlord Work to the following three (3) general contractors on Landlord's approved list of contractors: Howard Building, Stanhope, and Corporate Contractors, and Landlord shall allow Tenant to review the bids received. Tenant shall have the right to select the lowest bid which Landlord deems to be qualified, and Landlord shall enter into a direct contract for the Landlord Work with the general contractor so selected by Tenant. In addition, Landlord shall have the right to select and/or approve of any subcontractors used in connection with the Landlord Work.

2. Space planning, architectural and engineering (mechanical, electrical and plumbing) drawings for the Landlord Work shall be prepared by Landlord's architect at Tenant's sole cost and expense, subject to the Allowance. The space planning, architectural and mechanical drawings are collectively referred to herein as the "Plans".

3. Tenant shall furnish any requested information and approve or disapprove any preliminary or final layout, drawings, or plans within two (2) Business Days after written request (the "Approval Period"). Any disapproval shall be in writing and shall specifically set forth the reasons for such disapproval. Landlord's approval of the Plans and any revisions thereto or Landlord's supervision or performance of any work for or on behalf of the Tenant shall not be deemed to be a representation by Landlord that such Plans or the revisions thereto comply with applicable insurance requirements, building codes, ordinances, laws or regulations or that the improvements constructed in accordance with the Plans and any revisions thereto will be adequate for Tenant's use. Tenant and Tenant's architect, if any, shall devote such time in consultation with Landlord and Landlord's architect and/or engineer as may be required to provide all information Landlord deems necessary in order to enable Landlord's architect and engineer to complete plans for Tenant's written approval as soon as reasonably possible. In the event that Tenant fails to approve or disapprove the Plans within the Approval Period, Tenant shall be responsible for one (1) day of Delay (as defined in the Lease) for each day of delay in response beyond the Approval Period.

4. In the event Landlord's estimate and/or the actual cost of construction shall exceed the Allowance, Landlord, prior to commencing any construction of Landlord Work, shall submit to Tenant a written estimate setting forth the anticipated cost of the Landlord Work, including but not limited to labor and materials, contractor's fees and permit fees. Within three (3) Business Days thereafter, Tenant shall either notify Landlord in writing of its approval of the cost estimate, or specify its objections thereto and any desired changes to the proposed Landlord Work. In the event Tenant notifies Landlord of such objections and desired changes, Tenant shall work with Landlord to reach a mutually acceptable alternative cost estimate.

5. In the event Landlord's estimate and/or the actual cost of construction shall exceed the Allowance, if any (such amounts exceeding the Allowance being herein referred to as the "Excess Costs"), Tenant shall pay to Landlord such Excess Costs upon demand. The statements of costs submitted to Landlord by Landlord's contractors shall be conclusive for purposes of determining the actual cost of the items described therein. The amounts payable hereunder constitute Rent payable pursuant to the Lease, and the failure to timely pay same constitutes an event of default under the Lease.

6. If Tenant shall request any change, addition or alteration in any of the Plans after approval by Landlord, Landlord shall have such revisions to the drawings prepared, and Tenant shall reimburse Landlord for the cost thereof upon demand. Promptly upon completion of the revisions, Landlord shall notify Tenant in writing of the increased cost which will be chargeable to Tenant by reason of such change, addition or deletion. Tenant, within one (1) Business Day, shall notify Landlord in writing whether it desires to proceed with such change, addition or deletion. In the absence of such written authorization, Landlord shall have the option to continue work on the Premises disregarding the requested change, addition or alteration, or Landlord may elect to discontinue work on the Premises until it receives notice of Tenant's decision, in which event Tenant shall be responsible for any Delay in completion of the Premises resulting therefrom. In the event such revisions result in a higher estimate of the cost of construction and/or higher actual construction costs which exceed the Allowance, such increased estimate or costs shall be deemed Excess Costs pursuant to Paragraph 5 hereof and Tenant shall pay such Excess Costs upon demand.

7. Following approval of the Plans and the payment by Tenant of the required portion of the Excess Costs, if any, Landlord shall cause the Landlord Work to be constructed substantially in accordance with the approved Plans. Landlord shall notify Tenant of substantial completion of the Landlord Work.

8. Landlord, provided Tenant is not in default, agrees to provide Tenant with an allowance (the "Allowance") in an amount not to exceed Eighty-One Thousand Seven Hundred Thirty-Five and NO/100 Dollars ($81,735.00) (i.e., $15.00 per rentable square foot of the Premises) to be applied toward the cost of the Landlord Work in the Premises. Provided Tenant is not in default, Landlord further agrees to contribute the sum of Six Hundred Fifty Three and 88/100 Dollars ($653.88) (i.e., 12 cents per square foot of Rentable Area of the Premises) ("Space Plan Allowance") toward the cost of preparation by Klawitter & Associates of preliminary space plans and other preliminary consulting costs related to Tenant's potential tenancy in the Building. The Space Plan Allowance shall be disbursed by Landlord in accordance with the same procedures set forth in Exhibit D for the Allowance. In the event the Allowance shall not be sufficient to complete the Landlord Work which shall include construction of improvements, including walls, cabinets, shelving and the like and carpet, paint and other finish work to prepare the Premises for Tenant's occupancy, Tenant shall pay the Excess Costs as prescribed in Paragraph 5 above. In the event the Allowance exceeds the cost of Landlord Work, Tenant may apply up to ten percent (10%) of the remaining Allowance toward moving costs or the costs of furniture or equipment. Any remaining Allowance (after Tenant's allowed ten percent [10%]) shall accrue to the sole benefit of Landlord, it being agreed that Tenant shall not be entitled to any credit, offset, abatement or payment with respect thereto. Landlord shall be entitled to deduct from the Allowance a construction management fee for Landlord's oversight of the Landlord Work in an amount equal to four percent (4%) of the total cost of the Landlord Work.

9. Items of work not shown in the Plans including, for example, the installation of telephone service, equipment or furniture (including wiring and cabling connections or installations) for which Tenant contracts separately, and at Tenant's sole cost and expense (hereinafter "Tenant's Work"), shall be subject to Landlord's policies and schedules and shall be conducted in such a way as not to hinder, cause any disharmony with or delay the Landlord Work or any work of improvement in the Building. Tenant's suppliers, contractors, workmen and mechanics shall be subject to approval by Landlord prior to the commencement of their work and shall be subject to Landlord's administrative control while performing their work. Tenant shall cause its suppliers and contractors to engage only labor that is harmonious and compatible with other labor working in the Building. In the event of any labor disturbance caused by persons employed by Tenant or Tenant's contractor, Tenant shall immediately, and at Tenant's sole cost and expense, take all actions necessary to eliminate such disturbance. If at any time any supplier, contractor, workman or mechanic performing Tenant's Work hinders or delays the Landlord Work or any other work of improvement in the Building or performs any work which may or does impair the quality, integrity or performance of any portion of the Building, Tenant shall, at Tenant's sole cost and

expense, cause such supplier, contractor, workman or mechanic to leave the Building and remove all his tools, equipment and materials immediately upon written notice delivered to Tenant and Tenant shall reimburse Landlord for any repairs or corrections of the Tenant Improvements or Tenant's Work or of any portion of the Building caused by or resulting from the work of any supplier, contractor, workman or mechanic with whom Tenant contracts. Landlord shall give access to Tenant's suppliers, contractors, workmen and mechanics so as to achieve timely completion and occupancy of the Premises.

10. This Exhibit D shall not be deemed applicable to any additional space added to the original Premises at any time or from time to time, whether by any options under the Lease or otherwise, or to any portion of the original Premises or any additions to the Premises in the event of a renewal or extension of the original Lease Term whether by any options under the Lease or otherwise, unless expressly so provided in the Lease or any amendment or supplement to the Lease.

IN WITNESS WHEREOF, Landlord and Tenant have executed this Exhibit in multiple original counterparts as of the day and year first above written.

LANDLORD: EOP-PASADENA TOWERS, L.L.C., A DELAWARE LIMITED LIABILITY COMPANY DOING BUSINESS AS EOP-PASADENA TOWERS, LLC, A DELAWARE LIMITED LIABILITY COMPANY

BY: EOP Operating Limited Partnership, a Delaware limited partnership, its managing member

BY: Equity Office Properties Trust, a Maryland real estate investment trust, its managing general partner

/s/ PETER H. ADAMS

Name: Peter H. Adams

Title: Sr. Vice President

TENANT: ACACIA RESEARCH CORPORATION, a California corporation

/s/ KATHRYN KING-VAN WIE

Name: Kathryn King-Van Wie

Title: Chief Operating Officer

By: /s/ R. BRUCE STEWART

Name: R. Bruce Stewart

Title: Chief Financial Officer

EXHIBIT E

ADDITIONAL TERMS

This Exhibit is attached to and made a part of the Lease dated _____, 1998, by and between EOP-PASADENA TOWERS, L.L.C., A DELAWARE LIMITED LIABILITY COMPANY DOING BUSINESS AS EOP-PASADENA TOWERS, LLC, A DELAWARE LIMITED LIABILITY COMPANY ("Landlord"), and ACACIA RESEARCH CORPORATION, A CALIFORNIA CORPORATION ("Tenant") for space in the Building located at 55 South Lake Avenue, Pasadena, California.

I. RENEWAL OPTION.

A. Tenant shall have the right to extend the Lease Term (the "Renewal Option") for one additional period of five (5) years commencing on the day following the Termination Date of the initial Lease Term and ending on the fifth (5th) anniversary of the Termination Date (the "Renewal Term"), if:

1. Landlord receives notice of exercise of the Renewal Option ("Initial Renewal Notice") not less than twelve (12) full calendar months prior to the expiration of the initial Lease Term and not more than fifteen (15) full calendar months prior to the expiration of the initial Lease Term; and

2. Tenant is not in default under the Lease beyond any applicable cure periods at the time that Tenant delivers its Initial Renewal Notice or at the time Tenant delivers its Binding Notice (as hereinafter defined); and

3. No part of the Premises is sublet at the time that Tenant delivers its Initial Renewal Notice or at the time Tenant delivers its Binding Notice other than in connection with a Permitted Transfer; and

4. The Lease has not been assigned prior to the date that Tenant delivers its Initial Renewal Notice or prior to the date Tenant delivers its Binding Notice other than in connection with a Permitted Transfer; and

5. Tenant executes and returns the Renewal Amendment (hereinafter defined) within fifteen (15) days after its submission to Tenant.

B. The initial Base Rental rate per rentable square foot for the Premises during the Renewal Term shall equal the Prevailing Market (hereinafter defined) rate per rentable square foot for the Premises.

C. Tenant shall pay Additional Base Rental (i.e. Basic Costs) for the Premises during the Renewal Term in accordance with Article IV of the Lease.

D. Within thirty (30) days after receipt of Tenant's Initial Renewal Notice, Landlord shall advise Tenant of the applicable Base Rental rate for the Premises for the Renewal Term. Tenant, within fifteen (15) days after the date on which Landlord advises Tenant of the applicable Base Rental rate for the Renewal Term, shall either (i) give Landlord final binding written notice ("Binding Notice") of Tenant's exercise of its option, or (ii) if Tenant disagrees with Landlord's determination, provide Landlord with written notice of rejection (the "Rejection Notice"). If Tenant fails to provide Landlord with either a Binding Notice or Rejection Notice within such fifteen (15) day period, Tenant's Renewal Option shall be null and void and of no further force and effect. If Tenant provides Landlord with a Binding Notice, Landlord and Tenant shall enter into the Renewal Amendment

upon the terms and conditions set forth herein. If Tenant provides Landlord with a Rejection Notice, Landlord and Tenant shall work together in good faith to agree upon the Prevailing Market Base Rental rate for the Premises during the Renewal Term. Upon agreement Tenant shall provide Landlord with Binding Notice and Landlord and Tenant shall enter into the Renewal Amendment in accordance with the terms and conditions hereof. Notwithstanding the foregoing, if Landlord and Tenant are unable to agree upon the Prevailing Market Base Rental rate for the Premises within thirty (30) days after the date on which Tenant provides Landlord with a Rejection Notice, Tenant may elect to either rescind its intention to renew, or subject the process to binding arbitration. Tenant's election to cause the disagreement to be resolved by arbitration shall be deemed to be its Binding Notice. If Tenant fails to require arbitration by notice (the "Arbitration Notice") within three (3) days of the expiration of the thirty (30) day period set forth above, Tenant's right to extend the Lease shall be null and void and of no further force and effect. If Tenant provide Landlord with an Arbitration Notice as set forth above, Landlord and Tenant, within ten (10) days after the date of the Arbitration Notice, shall each simultaneously submit to the other, in a sealed envelope, its good faith estimate of the Prevailing Market Base Rental rate (collectively referred to as the "Estimates"). If the higher of such Estimates is not more than one hundred five percent (105%) of the lower of such Estimates, then Prevailing Market Base Rental rate shall be the average of the two (2) Estimates. If the Prevailing Market Base Rental rate is not resolved by the exchange of Estimates, Landlord and Tenant, within seven (7) days of the exchange of Estimates, shall select as an arbitrator a mutually acceptable licensed real estate broker with experience in commercial activities, including at least ten (10) years experience in leasing high-rise office space in the Pasadena, California area. If the parties cannot agree on an arbitrator, then within a second period of seven (7) days, each shall select an independent licensed real estate broker meeting the aforementioned criteria and within a third period of seven (7) days, the two appointed licensed real estate brokers shall select a third licensed real estate broker meeting the aforementioned criteria, and the third licensed real estate broker shall determine the Prevailing Market Base Rental rate. If one party shall fail to make such an appointment within said second seven (7) day period, then the licensed real estate broker chosen by the other party shall be the sole arbitrator. Once the arbitrator has been selected as provided for above, then, as soon thereafter as practicable but in any case within fourteen (14) days, the arbitrator shall select one of the two (2) Estimates of the Prevailing Market Base Rental rate submitted by the Landlord and Tenant, which must be the one that is closer to the Prevailing Market Base Rental rate as determined by the arbitrator. The selection of the arbitrator shall be rendered in writing to both Landlord and Tenant and shall be final and binding upon them. If the arbitrator believes that expert advice would materially assist him, he may retain one or more qualified persons to provide such expert advice. Landlord and Tenant shall each pay one half (1/2) of the costs of the arbitrator and of any experts retained by the arbitrator. Any fees of any counsel or experts engaged directly by Landlord or Tenant, however, shall be borne by the party retaining such counsel or expert.

E. If Tenant is entitled to and properly exercises its Renewal Option, Landlord shall prepare an amendment (the "Renewal Amendment") to reflect changes in the Base Rental, Lease Term, Termination Date and other appropriate terms. The Renewal Amendment shall be:

1. sent to Tenant within a reasonable time after receipt of the Binding Notice; and

2. executed by Tenant and returned to Landlord in accordance with paragraph A.5. above.

An otherwise valid exercise of the Renewal Option shall, at Landlord's option, be fully effective whether or not the Renewal Amendment is executed.

F. For purpose hereof, "Prevailing Market" shall mean the arms length fair market annual rental rate per rentable square foot under renewal leases and amendments entered into on or about the date on which the Prevailing Market is

being determined hereunder for space comparable to the Premises in the Building. The determination of Prevailing Market shall take into account any material economic differences between the terms of this Lease and any comparison lease, such as rent abatements, construction costs and other concessions and the manner, if any, in which the Landlord under any such lease is reimbursed for operating expenses and taxes. The determination of Prevailing Market shall also take into consideration any reasonably anticipated changes in the Prevailing Market rate from the time such Prevailing Market rate is being determined and the time such Prevailing Market rate will become effective under this Lease.

II. VIDEO PHONE.

Landlord hereby quitclaims, transfers, and assigns to Tenant any and all interest Landlord has in the videophone systems in the Premises, which transfer and quitclaim is made by Landlord in the "as-is" condition and location of said system on the date of this Lease and without any express or implied warranties of merchantability, suitability, or fitness for a particular purpose or any other kind with regard to said videophone system.

IN WITNESS WHEREOF, Landlord and Tenant have entered into this Exhibit as of the date first written above.

LANDLORD: EOP-PASADENA TOWERS, L.L.C., A DELAWARE LIMITED LIABILITY COMPANY DOING BUSINESS AS EOP-PASADENA TOWERS, LLC, A DELAWARE LIMITED LIABILITY COMPANY

BY: EOP Operating Limited Partnership, a Delaware limited partnership, its managing member

BY: Equity Office Properties Trust, a Maryland real estate investment trust, its managing general partner

/s/ PETER H. ADAMS

Name: Peter H. Adams

Title: Sr. Vice President

TENANT: ACACIA RESEARCH CORPORATION, a California corporation

/s/ KATHRYN KING-VAN WIE

Name: Kathryn King-Van Wie

Title: Chief Operating Officer

By: /s/ R. BRUCE STEWART

Name: R. Bruce Stewart

Title: Chief Financial Officer

EXHIBIT F

PARKING AGREEMENT

This Exhibit is attached to and made a part of the Lease dated _____, 1998, by and between EOP-PASADENA TOWERS, L.L.C., A DELAWARE LIMITED LIABILITY COMPANY DOING BUSINESS AS EOP-PASADENA TOWERS, LLC, A DELAWARE LIMITED LIABILITY COMPANY ("Landlord"), and ACACIA RESEARCH CORPORATION, A CALIFORNIA CORPORATION ("Tenant") for space in the Building located at 55 South Lake Avenue, Pasadena, California.

1. The parties acknowledge that they are contemporaneously herewith entering into a certain lease (the "Lease") for the Premises known as Suite No. 650 located in the Building located at 55 South Lake Avenue, Pasadena, California. In the event of any conflict between the Lease and this Parking Agreement, the latter shall control.

2. Landlord hereby grants to Tenant and persons designated by Tenant a license to use one (1) reserved parking spaces, and fifteen (15) non-reserved, random parking spaces in the Building parking structure. The term of such license shall commence on the Commencement Date under the Lease and shall continue until the earlier to occur of the Termination Date under the Lease, or termination of the Lease or Tenant's abandonment of the Premises thereunder. During the term of this license, Tenant shall pay Landlord the monthly charges established from time to time by Landlord for parking in the Building parking structure, payable in advance, with Tenant's payment of monthly Base Rental. The initial charge for such parking space(s) is $110.00 per reserved parking space, per month, and $65.00 per non-reserved, random parking space, per month, for all such parking spaces. No deductions from the monthly charge shall be made for days on which the Building parking structure is not used by Tenant. However, Tenant may reduce the number of parking spaces hereunder, at any time, providing at least thirty (30) days advance written notice to Landlord, accompanied by a key-card, sticker, or other identification or entrance system provided by Landlord or its parking contractor. Tenant may, from time to time request additional parking spaces, and if Landlord shall provide the same, such parking spaces shall be provided and used on a month-to-month basis, and otherwise on the foregoing terms and provisions, and at such monthly parking charges as Landlord shall establish from time to time.

3. Tenant shall at all times comply with all applicable ordinances, rules, regulations, codes, laws, statutes and requirements of all federal, state, county and municipal governmental bodies or their subdivisions respecting the use of the Building parking structure. Landlord reserves the right to adopt, modify and enforce reasonable rules ("Rules") governing the use of the Building parking structure from time to time including any key-card, sticker or other identification or entrance system and hours of operation. The Rules set forth herein are currently in effect. Landlord may refuse to permit any person who violates such Rules to park in the Building parking structure, and any violation of the Rules shall subject the car to removal from the Building parking structure.

4. Tenant may validate visitor parking by such method or methods as Landlord may approve, at the validation rate from time to time generally applicable to visitor parking. Unless specified to the contrary above, the parking spaces hereunder shall be provided on an unreserved "first-come, first-served" basis. Tenant acknowledges that Landlord has or may arrange for the Building parking structure to be operated by an independent contractor, not affiliated with Landlord. In such event, Tenant acknowledges that Landlord shall have no liability for claims arising through acts or omissions of such independent contractor, if such contractor is reputable. Landlord shall have no liability whatsoever for any damage to building or any other items located in the Building parking structure, nor for any personal injuries or death arising out of any matter relating to the Building parking structure, and in all events, Tenant agrees to look first to its insurance carrier and to require that Tenant's employees look first to their respective insurance carriers for payment of any losses sustained in connection

with any use of the Building parking structure. Tenant hereby waives on behalf of its insurance carriers all rights of subrogation against Landlord or Landlord's agents. Landlord reserves the right to assign specific parking spaces, and to reserve parking spaces for visitors, small cars, handicapped persons and for other tenants, guests of tenants or other parties, which assigned and/or reserved spaces may be relocated by Landlord from time to time, and Tenant and persons designated by Tenant hereunder shall not park in any such assigned or reserved parking spaces. Landlord also reserves the right to close all or any portion of the Building parking structure in order to make repairs or perform maintenance services, or to alter, modify, re-stripe or renovate the Building parking structure, or if required by casualty, strike, condemnation, act of God, governmental law or requirement or other reason beyond Landlord's reasonable control. In such event, Landlord shall refund any prepaid parking rent hereunder, prorated on a per diem basis. If, for any other reason, Tenant or persons properly designated by Tenant, shall be denied access to the Building parking structure, and Tenant or such persons shall have complied with this Parking Agreement and this Parking Agreement shall be in effect, Landlord's liability shall be limited to such parking charges (excluding tickets for parking violations) incurred by Tenant or such persons in utilizing alternative parking, which amount Landlord shall pay upon presentation or documentation supporting Tenant's claims in connection therewith.

5. If Tenant shall default under this Parking Agreement, Landlord shall have the right to remove from the Building parking structure any vehicles hereunder which shall have been involved or shall have been owned or driven by parties involved in causing such default, without liability therefore whatsoever. In addition, if Tenant shall default under this Parking Agreement, Landlord shall have the right to cancel this Parking Agreement on ten (10) days' written notice, unless within such ten (10) day period, Tenant cures such default. If Tenant defaults with respect to the same term or condition under this Parking Agreement more than three (3) times during any twelve (12) month period, and Landlord notifies Tenant thereof promptly after each such default, the next default of such term or condition during the succeeding twelve (12) month period, shall, at Landlord's election, constitute an incurable default. Such cancellation right shall be cumulative and in addition to any other rights or remedies available to Landlord at law or equity, or provided under the Lease (all of which rights and remedies under the Lease are hereby incorporated herein, as though fully set forth). Any default by Tenant under the Lease shall be a default under this Parking Agreement, and any default under this Parking Agreement shall be a default under the Lease.

RULES

(i) Building parking structure hours shall be 6:00 a.m. to 8:00 p.m., however, Tenant shall have access to the garage or parking lot on a 24 hour basis, 7 days a week. Tenant shall not store or permit its employees to store any automobiles in the garage or on the surface parking areas without the prior written consent of Landlord. Except for emergency repairs, Tenant and its employees shall not perform any work on any automobiles while located in the garage or on the Property. If it is necessary for Tenant or its employees to leave an automobile in the garage or on the surface parking areas overnight, Tenant shall provide Landlord with prior notice thereof designating the license plate number and model of such automobile.

(ii) Cars must be parked entirely within the stall lines painted on the floor, and only small cars may be parked in areas reserved for small cars.

(iii) All directional signs and arrows must be observed.

(iv) The speed limit shall be 5 miles per hour.

(v) Parking spaces reserved for handicapped parking must be used only by vehicles properly designated.

(vi) Parking is prohibited in all areas not expressly designated for parking, including without limitation:

(a) Areas not striped for parking
(b) aisles
(c) where "no parking" signs are posted
(d) ramps
(e) loading zones

(vii) Parking stickers, key cards or any other devices or forms of identification or entry supplied by Landlord shall remain the property of Landlord. Such devised must be displayed as requested and may not be mutilated in any manner. The serial number of the parking identification device may not be obliterated. Devises are not transferable and an device in the possession of an unauthorized holder will be void.

(viii) Monthly fees shall be payable in advance prior to the first day of each month. Failure to do so will automatically cancel parking privileges and a charge at the prevailing daily parking rate will be due. No deductions or allowances from the monthly rate will be made for days on which the Building parking structure is not used by Tenant or its designees.

(ix) Building parking structure managers or attendants are not authorized to make or allow any exceptions to these Rules.

(x) Every parker is required to park and lock his/her own car.

(xi) Loss or theft of parking identification, key cards or other such devices must be reported to Landlord to any garage manager immediately. Any parking devices reported lost or stolen found on any authorized car will be confiscated and the illegal holder will be subject to prosecution. Lost or stolen devices found by Tenant or its employees must be reported to the office of the garage immediately.

(xii) Washing, waxing, cleaning or servicing of any vehicle by the customer and/or his agents is prohibited. Parking spaces may be used only for parking automobiles.

(xiii) By signing this Parking Agreement, Tenant agrees to acquaint all persons to whom Tenant assigns parking spaces with these Rules.

6. NO LIABILITY. TENANT ACKNOWLEDGES AND AGREES THAT, TO THE FULLEST EXTENT PERMITTED BY LAW, LANDLORD SHALL NOT BE RESPONSIBLE FOR ANY LOSS OR DAMAGE TO TENANT OR TENANT'S PROPERTY (INCLUDING, WITHOUT LIMITATIONS, ANY LOSS OR DAMAGE TO TENANT'S AUTOMOBILE OR THE CONTENTS THEREOF DUE TO THEFT, VANDALISM OR ACCIDENT) ARISING FROM OR RELATED TO TENANT'S USE OF THE BUILDING PARKING STRUCTURE OR EXERCISE OF ANY RIGHTS UNDER THIS PARKING AGREEMENT, UNLESS SUCH LOSS OR DAMAGE RESULTS FROM LANDLORD'S ACTIVE NEGLIGENCE OR NEGLIGENT OMISSION. THE LIMITATION ON LANDLORD'S LIABILITY UNDER THE PRECEDING SENTENCE SHALL NOT APPLY HOWEVER TO LOSS OR DAMAGE ARISING DIRECTLY FROM LANDLORD'S WILLFUL MISCONDUCT.

7. Release of Liability. Without limiting the provisions of Paragraph 6 above, Tenant hereby voluntarily releases, discharges, waives and relinquishes any and all actions or causes of action for personal injury or property damage occurring to

Tenant arising as a result of parking in the Building parking structure, or any activities incidental thereto, wherever or however the same may occur, and further agrees that Tenant will not prosecute any claim for personal injury or property damage against Landlord or any of its officers, agents, servants or employees for any said causes of action. It is not the intention of Tenant by this instrument, to exempt and relieve Landlord from liability for personal injury or property damage caused by negligence.

8. The provisions of Article XXIV of the Lease are hereby incorporated by reference as if fully recited.

Tenant acknowledges that Tenant has read the provisions of this Parking Agreement, has been fully and completely advised of the potential dangers incidental to parking in the Building parking structure and is fully aware of the legal consequences of signing this instrument.

IN WITNESS WHEREOF, Landlord and Tenant have executed this Exhibit in multiple original counterparts as of the day and year first above written.

LANDLORD: EOP-PASADENA TOWERS, L.L.C., A DELAWARE LIMITED LIABILITY COMPANY DOING BUSINESS AS EOP-PASADENA TOWERS, LLC, A DELAWARE LIMITED LIABILITY COMPANY

BY: EOP Operating Limited Partnership, a Delaware limited partnership, its managing member

BY: Equity Office Properties Trust, a Maryland real estate investment trust, its managing general partner

By: /s/ PETER H. ADAMS

Name: Peter H. Adams

Title: Sr. Vice President

TENANT: ACACIA RESEARCH CORPORATION, a California corporation

/s/ KATHRYN KING-VAN WIE

Name: Kathryn King-Van Wie

Title: Chief Operating Officer

By: /s/ R. BRUCE STEWART

Name: R. Bruce Stewart

Title: Chief Financial Officer

EXHIBIT G

JANITORIAL SPECIFICATIONS

MONDAY - FRIDAY

1. Sweep, dry-mop or vacuum all floors (stairwells and landings included).

2. Clean cigarette urns or cigarette disposal units.

3. Empty and wipe all ashtrays.

4. Dust and wipe clean with a treated cloth, base-boards, window sills, desk tops, telephones and all horizontal surfaces that can be reached without a ladder.

5. Clean, polish and sanitize all drinking fountains.

6. Sweep all steps, sidewalks and plazas.

7. Clean elevator cabs and landing doors, including floors.

8. Empty all waste containers.

9. Clean all public restrooms.

   a. All cleaning performed with disinfectant-strength germicidal detergents.

   b. Surfaces of toilets and urinals will be cleaned; interiors will be cleaned with acid bowl cleaner.

   c. Wash basins, shelves, dispensers and all other washroom fixtures will be cleaned.

   d. Mirrors will be cleaned and polished.

   e. Chrome and other bright work, including exposed plumbing, toilet seat hinges, etc., will be cleaned and polished.

   f. Waste receptacles are to be emptied and cleaned.

   g. Lavatory floors will be swept and mopped.

   h. Washroom supplies will be replenished.

10. All normal rubbish and office waste paper shall be removed from tenant floors and carried to a designated location.

11. Sweep clean loading dock areas.

12. In building lobby, dust and wipe clean metal door knobs, kick plates, directional signs and door saddles.

13. Dust and sanitize all telephones.

14. Low dust moldings, picture frames and convectors.

15. Clean the upper side of all glass furniture tops.

16. Spot clean interior glass in partitions and doors and both sides of exterior entrance door glass.

WEEKLY

1. Spot clean all carpeting, doors, switch plates, wall and glass areas adjacent to doors.

2. Dust and wipe tops of all counters and file cabinets.

3. Wipe clean interior building metals.

4. Damp mop floors and/or spray buff for heavy scuffs if necessary.

5. Clean building directory glass.

6. Wipe all waste containers.

7. Wash all glass entrance doors and side panels inside and out.

8. Clean all loading dock areas.

MONTHLY

1. Dust electric fixtures and other fittings in public corridors. Replace building standard fluorescent bulbs when necessary.

2. Shampoo common area and elevator carpeting.

3. Damp-mop building stairwells.

4. Dust corridor and lobby walls.

5. Dust all high areas not reached in nightly cleaning, including pictures frames, charts, graphs, wall hangings, walls, partitioning, light fixtures, window frames and overhead pipes and sprinklers.

6. When possible, sweep and hose down outside terrace space, exterior walks, trucking areas and shipping platforms.

7. Scrub Loading dock areas.

8. Remove hard water deposits from toilet fixtures by using bowl cleaner after normal cleaning.

9. Wash washroom partitions, tile walls, and enamel surfaces with germicidal detergent.

EVERY THREE MONTHS

1. Dust vertical surfaces of all furnitures.

2. Scrub all resilient floor areas to maintain a highly polished surface.

3. Spot clean Tenant carpeting as required.

4. Clean all light fixtures.

5. Clean Venetian blinds.

6. Lavatory floors will be machine-scrubbed.

MISCELLANEOUS

1. Wash Tenant lobby windows once a month; wash exterior windows twice a year; and wash interior windows once a year.

2. Sidewalks, entrances (including dock) and grounds to be kept clean of paper, leaves and debris.

3. Put out in lobby entrances floor mats during inclement weather. Clean floor mats as necessary.

4. Keep walls and ceilings clean.

5. As needed, but not less than weekly, remove fingerprints from doors, frames, handles, railings, light switches and push plates.

EXHIBIT B

ALTERNATE FORM FOR LANDLORD'S CONSENT

Consent of Landlord

The undersigned, being the landlord ("Landlord") under that certain lease dated April 30, 1998, as amended by a First Amendment dated June 26, 2000 and a Parking Agreement dated April 30, 1998 (collectively, the "Master Lease") between Landlord and Acacia Research Corporation ("Tenant"), hereby agrees as follows:

1. Landlord consents to the subletting of the Premises by Tenant to Jenkens & Gilchrist, a Texas Professional Corporation ("Subtenant") pursuant to that certain Sublease, a copy of which is attached hereto as Exhibit "A", subject to the terms and conditions set forth herein.

2. Landlord acknowledges that pursuant to the Sublease, Tenant's Security Deposit (as described in the Master Lease) has been assigned to Subtenant and that upon expiration or termination of the Master Lease, to the extent that Tenant is entitled to a return of all or any portion thereof, it shall be returned directly to Subtenant at the address set forth herein. Landlord confirms that the amount of such Security Deposit is $16,876.08, and that no part thereof has been applied by Landlord towards rent or as a result of any default of Tenant under the Master Lease.

3. Notwithstanding the fact that no direct contractual relationship exists between Landlord and Subtenant (except for the agreements set forth in this Consent of Landlord) Subtenant shall have the right to exercise the Tenant's right to extend the Term of the Master Lease (as set forth in Exhibit "E" to the Master Lease), subject to the terms and conditions set forth therein. If Subtenant timely exercises such right, Landlord and Tenant shall execute a new lease on substantially the same terms and conditions as the Master Lease, but with the term and rent as described in the said Exhibit "E". Under no circumstances will Tenant be obligated to Landlord in any way under said new lease, nor will Tenant be in any way liable to Landlord for any rent or other sums resulting from the exercise of the extension option by Subtenant.

4. This Consent does not release Sublandlord of its obligations or alter the primary liability of Sublandlord to pay the rent and perform and comply with all of the obligations of Sublandlord to be performed (as Tenant) under the Master Lease during the original Term of the Master Lease.

5. This Consent shall not constitute a consent to any subsequent subletting of the Premises.

6. In the event of any default of Sublandlord (as Tenant) under the Master Lease, Landlord may proceed directly against Sublandlord, or any one else liable under the Master Lease, without first exhausting Landlord's remedies against any other person or entity liable thereon to Landlord.

7. Landlord will not amend or modify the Master Lease in any respect which adversely affects the rights of Subtenant under the Sublease, nor will Landlord terminate the Master Lease (except as a result of a default by Sublandlord thereunder).

8. In the event that Sublandlord shall default in its obligations under the Master Lease, then Landlord may, at its option and without being obligated to do so, require Subtenant to attorn to Landlord, in which event Landlord shall undertake the obligations of Sublandlord under the Sublease from the time of the exercise of said option to terminate the Sublease, but Landlord shall not be liable for any prepaid rent paid by Subtenant nor shall Landlord be liable for any defaults of the Sublandlord under the Sublease. Whether or not Landlord requires Subtenant to so attorn, as long as Subtenant is not in default under the Sublease, Landlord will not disturb the quite enjoyment, use or occupancy of the Premises by Subtenant pursuant to the terms of the Sublease.

9. Landlord acknowledges that, to the best of its knowledge, no default presently exists under the Master Lease of obligations to be performed by Sublandlord or by Landlord, and that the Master Lease is in full force and effect, and that a full, true and correct copy of the Master Lease is attached to the Sublease, and that the Master Lease has not been amended or modified except as set forth therein.

10. In the event that Sublandlord defaults under its obligations to be performed under the Master Lease, Landlord agrees to deliver to Subtenant a copy of any such notice of default concurrently with the delivery of any notice of default to Sublandlord. Subtenant shall have the right to cure any default of Sublandlord described in any such notice of default within the later of the time to cure set forth in the Master Lease, or 30 days (10 days for a monetary default) after service of such notice of default on Subtenant. If such default is cured by Subtenant, then Subtenant shall have the right of reimbursement against Sublandlord. Any notices to Subtenant shall be sent to Jenkens & Gilchrist, 1445 Ross Avenue, Suite 3200, Dallas, Texas 75202-2799, Attn: Roger L. Hayse.

Landlord acknowledges that Subtenant is relying on the provisions of this Consent of Landlord in entering into the Sublease and that without such consent, Subtenant would not enter into the Sublease.

Dated: November ___, 2001

EOP - Pasadena Towers, L.L.C.,
a Delaware limited liability company

By: ----------

Its: ----------

OFFICE SPACE LEASE

BETWEEN

THE IRVINE COMPANY

AND

ACACIA RESEARCH CORPORATION

OFFICE SPACE LEASE

THIS LEASE is made as of the 28th day of January, 2002, by and between THE IRVINE COMPANY, hereafter called "Landlord," and ACACIA RESEARCH CORPORATION, a Delaware corporation, hereafter called "Tenant."

ARTICLE I. BASIC LEASE PROVISIONS

Each reference in this Lease to the "Basic Lease Provisions" shall mean and refer to the following collective terms, the application of which shall be governed by the provisions in the remaining Articles of this Lease.

1. TENANT'S TRADE NAME: N/A

2. PREMISES: Suite No. 700 (the Premises are more particularly described in Section 2.1).

   ADDRESS OF BUILDING: 500 Newport Center Drive, Newport Beach, CA 92660

   PROJECT DESCRIPTION Newport Center Block 500 (consisting of the Building and the adjacent building at 550 Newport Center Drive, together with all attendant parking and other Common Areas).

3. USE OF PREMISES: General Office and for no other use.

4. COMMENCEMENT DATE: February 15, 2002

5. LEASE TERM: The Term of this Lease shall expire on the date immediately preceding the fifth anniversary of the Commencement Date.

6. BASIC RENT: Twenty-Three Thousand Two Hundred Fifteen Dollars ($23,215.00) per month.

   RENTAL ADJUSTMENTS:

   Commencing February 1, 2003, the Basic Rent shall be Twenty-Three Thousand Nine Hundred Twenty-Nine Dollars ($23,929.00) per month.

   Commencing February 1, 2004, the Basic Rent shall be Twenty-Four Thousand Six Hundred Forty-Three Dollars ($24,643.00) per month.

   Commencing February 1, 2005, the Basic Rent shall be Twenty-Five Thousand Three Hundred Fifty-Eight Dollars ($25,358.00) per month.

   Commencing February 1, 2006, the Basic Rent shall be Twenty-Six Thousand Seventy-Two Dollars ($26,072.00) per month.

7. PROPERTY TAX BASE: The Property Taxes per rentable square foot incurred by Landlord and attributable to the twelve month period ending June 30, 2002 (the "Base Year").

   BUILDING COST BASE: The Building Costs per rentable square foot incurred by Landlord and attributable to the Base Year.

   EXPENSE RECOVERY PERIOD: Every twelve month period during the Term (or portion thereof during the first and last Lease years) ending June 30.

8. FLOOR AREA OF PREMISES: approximately 7,143 rentable square feet and approximately 6,028 usable square feet

9. SECURITY DEPOSIT: $28,679.00

10. BROKER(S): The Staubach Company

11. PLAN APPROVAL DATE: N/A

12. PARKING: Twenty-Four (24) unreserved vehicle parking spaces (see Exhibit C).

13. ADDRESS FOR PAYMENTS AND NOTICES:

LANDLORD	TENANT
The Irvine Company c/o Insignia/ESG, Inc. 630 Newport Center Drive, Suite 100 Newport Beach, CA 92660 Attn: Property Manager	Acacia Research Corporation 500 Newport Center Drive Suite 700 Newport Beach, CA 92660 Attn: Robert Berman, Esq.
with a copy of notices to:	with a copy of default notices to:
THE IRVINE COMPANY P.O. Box 6370 Newport Beach, CA 92658-6370 Attn: Vice President, Operations - Office Properties	Allen Matkins Leck Gamble & Mallory LLP 1901 Avenue of the Stars Suite 1800 Los Angeles, CA 90067 Attn: Mark Kelson, Esq.

ARTICLE II. PREMISES

SECTION 2.1. LEASED PREMISES. Landlord leases to Tenant and Tenant rents from Landlord the premises shown in Exhibit A (the "Premises"), containing approximately the floor area set forth in Item 8 of the Basic Lease Provisions and known by the suite number identified in Item 2 of the Basic Lease Provisions. The Premises are located in the building identified in Item 2 of the Basic Lease Provisions (the "Building"), which is a portion of the project described in Item 2 (the "Project").

SECTION 2.2. ACCEPTANCE OF PREMISES. Tenant acknowledges that neither Landlord nor any representative of Landlord has made any representation or warranty with respect to the Premises or the Building or the suitability or fitness of either for any purpose, except as set forth in this Lease. Nothing contained in this Section shall affect the commencement of the Term or the obligation of Tenant to pay rent. Landlord shall diligently complete all punch list items of which it is notified as provided above.

SECTION 2.3. BUILDING NAME, ADDRESS AND DEPICTION. Tenant shall not utilize any name selected by Landlord from time to time for the Building and/or the Project as any part of Tenant's corporate or trade name. Landlord shall have the right to change the name, number or designation of the Building or Project without liability to Tenant upon reasonable prior notice to Tenant. Tenant shall not use any picture of the Building in its advertising, stationery or in any other manner.

SECTION 2.4. RIGHT OF FIRST OFFER. Provided Tenant is not then in default beyond any applicable cure period hereunder, Landlord hereby grants Tenant the continuing right ("First Right") to lease, during the initial sixty (60) month Term of this Lease, any space which is contiguous to the Premises that may become available for lease on the seventh (7th) floor of the Building ("First Right Space") in accordance with and subject to the provisions of this Section 2.4. At any time after the date of this Lease, but prior to leasing the First Right Space, or any portion thereof, to any other party, Landlord shall give Tenant written notice of the basic economic terms including but not limited to the Basic Rent, term, operating expense base, rent abatement, security deposit, and tenant improvement allowance (collectively, the "Economic Terms"), upon which Landlord is willing to lease such particular First Right Space to Tenant or to a third party; provided that the Economic Terms shall exclude brokerage commissions and other Landlord payments that do not directly inure to the tenant's benefit. It is understood that should Landlord intend to lease other space in addition to the First Right Space as part of a single transaction, then Landlord's notice shall so provide and all such space shall collectively be subject to the following provisions. Within five (5) business days after receipt of Landlord's notice, Tenant shall give Landlord written notice pursuant to which Tenant shall elect to (i) lease all, but not less than all, of the space specified in Landlord's notice (the "Designated Space") upon such Economic Terms and the same non-Economic Terms as set forth in this Lease; (ii) refuse to lease the Designated Space, specifying that such refusal is not based upon the Economic Terms, but upon Tenant's lack of need for the Designated Space, in which event Landlord may lease the Designated Space upon any terms it deems appropriate; or (iii) refuse to lease the Designated Space, specifying that such refusal is based upon said Economic Terms, in which event Tenant shall also specify revised Economic Terms upon which Tenant shall be willing to lease the Designated Space. In the event that Tenant does not so respond in writing to Landlord's notice within said period, Tenant shall be deemed to have elected clause (ii) above. In the event Tenant gives Landlord notice pursuant to clause (iii) above, Landlord may elect to either (x) lease the Designated Space to Tenant upon such revised Economic Terms and the same other non-Economic Terms as set forth in this Lease, or (y) lease the Designated Space to any third party upon Economic Terms which are not more favorable to such party than those Economic Terms proposed by Tenant. Should Landlord so elect to lease the Designated Space to Tenant, then Landlord shall promptly prepare and deliver to Tenant an amendment to this Lease consistent with the foregoing, and Tenant shall execute and return same to Landlord within ten (10) business days. In the event that Landlord shall not enter into a lease for the Designated Space with a third party within one hundred eighty (180) days following Landlord's notice

described above, then prior to leasing the First Right Space to any third party, Landlord shall repeat the procedures set forth in this Section 2.4. In the event that Landlord leases the Designated Space to a third party in accordance with the provisions of this Section 2.4, and during the initial sixty (60) month term of this Lease the First Right Space, or any portion thereof, shall again become available for releasing, then prior to Landlord entering into any such new lease with a third party for the First Right Space, Landlord shall repeat the procedures specified above in this Section 2.4. Notwithstanding the foregoing, it is understood that Tenant's First Right shall be subject to any extension or expansion rights previously granted by Landlord to any existing third party tenant in the Building, and to any extension rights which may hereafter be granted by Landlord to any third party tenant now or hereafter occupying the First Right Space or any portion thereof, and in no event shall any such First Right Space be deemed available for leasing unless the then-existing tenant thereof shall vacate that First Right Space. In addition, Landlord may from time to time utilize segments of the First Right Space for temporary office or storage purposes, and such temporary use shall not trigger the First Right granted herein. Tenant's rights under this Section 2.4 shall belong solely to Acacia Research Corporation and any Tenant Affiliate (as defined in Section 9.1(f) below) to which this Lease may be assigned, and may not otherwise be assigned or transferred by it.

ARTICLE III. TERM

SECTION 3.1. GENERAL. The Term shall be for the period shown in Item 5 of the Basic Lease Provisions. The Term shall commence ("Commencement Date") on the Commencement Date as set forth in Item 4 of the Basic Lease Provisions and shall expire on the date set forth in Item 5 of the Basic Lease Provisions ("Expiration Date"). Landlord shall complete the recarpet and painting of the Premises in accordance with the provisions of the Work Letter attached as Exhibit X hereto.

SECTION 3.2. RIGHT TO EXTEND THIS LEASE. Provided that Tenant is not then in default under any provision of this Lease after the expiration of any applicable notice and cure period, Tenant may extend the Term of this Lease for one (1) period of sixty (60) months. Tenant shall exercise its right to extend the Term by and only by delivering to Landlord, not less than ten (10) months prior to the expiration date of the Term, Tenant's written notice of its election to extend (the "Exercise Notice"). The Basic Rent payable under the Lease during the extension of the Term shall be at the prevailing rental rate and other economic terms for office space being leased by Landlord in the Building and in the other high-rise buildings in Block 600 of Newport Center with a term commencing at or about the commencement of the extension period (the "Prevailing Rate").

In determining the Prevailing Rate, recent new and renewal leases with non-equity tenants shall be considered. The Prevailing Rate shall reflect the rental rate and terms payable in those third party transactions, taking into account pertinent economic concessions then generally being granted by Landlord such as "free rent," Operating Expense base years, parking charge limitations, tenant improvement allowances and the like. It is understood, however, that no consideration shall be given to brokerage commissions, lease "takeover" payments, or moving allowances. The rental rates payable in any third party transactions executed more than nine (9) months prior to the commencement of the extension period shall be reasonably extrapolated, if applicable, to reflect anticipated changes in the Prevailing Rate based on current rental trends.

Following Tenant's delivery of the Exercise Notice, but not later than nine (9) months prior to the expiration date of the Term, Landlord shall notify Tenant in writing ("Landlord's Notice") of Landlord's calculation of the Prevailing Rate for the extension period based on the foregoing criteria. Not later than fifteen (15) days following delivery of the Landlord's Notice, Tenant may elect to rescind the Exercise Notice by delivery of written notice to Landlord ("Rescission Notice"), in which event this extension right shall lapse and cease to be of any force or effect; provided that should Tenant fail timely to deliver the Rescission Notice, Tenant's election to extend this Lease shall be irrevocable.

Provided that Tenant does not elect to rescind as provided above, the parties shall diligently and in good faith attempt to agree in writing on the Prevailing Rate. In the event the parties are unable to so agree on the Prevailing Rate by the date that is six (6) months prior to the commencement of the extension period, then either party may cause the Prevailing Rate to be determined by arbitration in accordance with Section 14.7(b). The arbitrator shall determine the Prevailing Rate based on the criteria set forth above, and neither party shall be bound in the arbitration by any earlier calculation by such party of the Prevailing Rate.

Within twenty (20) days after the determination of the Prevailing Rate, Landlord shall prepare a reasonably appropriate amendment to this Lease for the extension period and Tenant shall execute and return same to Landlord within ten (10) business days. Should the Prevailing Rate not be established by the commencement of the extension period, then Tenant shall continue paying rent at the rate in effect during the last month of the initial Term, and a lump sum adjustment shall be made within thirty (30) days following the determination of such new rental.

If Tenant does not deliver the Exercise Notice by the date set forth above, or otherwise fails to comply with any of the other provisions of this paragraph, then Tenant's right to extend the Term shall be extinguished and the Lease shall automatically terminate as of the expiration date of the Term, without any extension and without any liability to Landlord. Any attempt by the original Tenant herein to assign or transfer any right or interest created by this paragraph, except in connection with an assignment of this Lease to a Tenant Affiliate, shall be void from its inception. Time is specifically made of the essence of this Section.

ARTICLE IV. RENT AND OPERATING EXPENSES

SECTION 4.1. BASIC RENT. From and after the Commencement Date, Tenant shall pay to Landlord without deduction or offset (except as otherwise provided in this Lease) a Basic Rent for the Premises in the total amount shown (including subsequent adjustments, if any) in Item 6 of the Basic Lease Provisions. Any rental adjustment shown in Item 6 shall be deemed to occur on the specified monthly anniversary of the Commencement Date, whether or not that date occurs at the end of a calendar month. The rent shall be due and payable in advance commencing on the Commencement Date and continuing thereafter on the first day of each successive calendar month of the Term, as prorated for any partial month. No demand, notice or invoice shall be required. An installment of rent in the amount of one (1) full month's Basic Rent at the initial rate specified in Item 6 of the Basic Lease Provisions shall be delivered to Landlord concurrently with Tenant's execution of this Lease and shall be applied against the Basic Rent first due hereunder; the next installment of Basic Rent shall be due on the first day of the second calendar month of the Term, which installment shall, if applicable, be appropriately prorated to reflect the amount prepaid for that calendar month.

SECTION 4.2. OPERATING EXPENSE INCREASE.

(a) Commencing twelve (12) months following the Commencement Date, Tenant shall compensate Landlord, as additional rent, for Tenant's proportionate shares of "Building Costs" and "Property Taxes," as those terms are defined below, incurred by Landlord in the operation of the Building, inclusive of the Building's proportionate share of expenses attributable to the Common Areas of the Project as reasonably determined by Landlord. Property Taxes and Building Costs are mutually exclusive and may be billed separately or in combination as determined by Landlord, provided Tenant is treated in a nondiscriminatory manner with respect to other tenants of the Building. Tenant's proportionate share of Property Taxes shall equal the product of the rentable floor area of the Premises, as set forth in Item 8 of the Basic Lease Provisions, multiplied by the difference of (i) Property Taxes per rentable square foot less (ii) the Property Tax Base set forth in Item 7 of the Basic Lease Provisions. Tenant's proportionate share of Building Costs shall equal the product of the rentable floor area of the Premises multiplied by the difference of (i) Building Costs per rentable square foot less (ii) the Building Cost Base set forth in Item 7 of the Basic Lease Provisions. For convenience of reference, Property Taxes and Building Costs may sometimes be collectively referred to as "Operating Expenses."

(b) Commencing prior to the start of the first full "Expense Recovery Period" of the Lease (as defined in Item 7 of the Basic Lease Provisions), and prior to the start of each full or partial Expense Recovery Period thereafter, Landlord shall give Tenant a written estimate of the amount of Tenant's proportionate shares of Building Costs and Property Taxes for the Expense Recovery Period or portion thereof. Commencing twelve (12) months following the Commencement Date, Tenant shall pay the estimated amounts to Landlord in equal monthly installments, in advance, with Basic Rent. If Landlord has not furnished its written estimate for any Expense Recovery Period by the time set forth above, Tenant shall continue to pay cost reimbursements at the rates established for the prior Expense Recovery Period, if any; provided that when the new estimate is delivered to Tenant, Tenant shall, within thirty (30) days following Tenant's receipt of the new statement, pay any accrued cost reimbursements based upon the new estimate. Landlord may from time to time change the Expense Recovery Period to reflect a calendar year or a new fiscal year of Landlord, as applicable, in which event Tenant's share of Operating Expenses shall be equitably prorated for any partial year.

(c) Within one hundred twenty (120) days after the end of each Expense Recovery Period, Landlord shall furnish to Tenant a reasonably detailed statement setting forth the actual or prorated Property Taxes and Building Costs attributable to that period, and the parties shall within thirty (30) days thereafter make any payment or allowance necessary to adjust Tenant's estimated payments, if any, to Tenant's actual proportionate shares as shown by the annual statement. If Tenant has not made estimated payments during the Expense Recovery Period, any amount owing by Tenant pursuant to subsection (a) above shall be paid to Landlord in accordance with Article XVI. If actual Property Taxes or Building Costs allocable to Tenant during any Expense Recovery Period are less than the Property Tax Base or the Building Cost Base, respectively, Landlord shall not be required to pay that differential to Tenant, although Landlord shall refund any applicable estimated payments collected from Tenant. Should Tenant fail to object in writing to Landlord's determination of actual Operating Expenses within six (6) months following delivery of Landlord's expense statement, Landlord's determination of actual Operating Expenses for the applicable Expense Recovery Period shall be conclusive and binding on Tenant.

(d) Tenant shall not be responsible for Tenant's proportionate share of any Operating Expenses attributable to any Expense Recovery Period which are first billed to Tenant more than two (2) calendar years after the end of the applicable Expense Recovery Period. Landlord shall have the right to recalculate Operating Expenses and to deliver to Tenant revisions of previously delivered statements setting forth such recalculation, whereupon any increase in the amount payable by Tenant shall be paid by Tenant within thirty (30) days after receipt of any such revised statement or any decrease in the amount payable by Tenant shall be refunded to Tenant concurrently with Landlord's delivery of such revised statement to Tenant; provided, however, Landlord shall have no right to recalculate Operating Expenses more than two (2) years following the expiration of the applicable Expense Recovery Period. Even though the Lease has terminated and the Tenant has vacated the Premises, when the final determination is made of Tenant's share of Property Taxes and Building Costs for the Expense Recovery Period in which the Lease terminates, Tenant shall upon notice pay the entire increase due over the estimated expenses paid; conversely, any overpayment made in the event expenses decrease shall be rebated by Landlord to Tenant.

(e) If, at any time during any Expense Recovery Period but after the first twelve (12) months of the Lease Term, any one or more of the Operating Expenses are increased to a rate(s) or amount(s) in excess of the rate(s) or amount(s) used in calculating the estimated expenses for the year, and provided such increase(s) are in excess of the costs and expenses incurred during the Base Year, then Tenant's estimated share of Property Taxes or Building Costs, as applicable, shall be increased for the month in which the increase becomes effective and for all succeeding months by an amount equal to Tenant's proportionate share of the increase. Landlord shall give Tenant written notice of the amount or estimated amount of the increase, the month in which the increase will become effective, Tenant's monthly share thereof and the months for which the payments are due. Tenant shall pay the increase to Landlord as a part of Tenant's monthly payments of estimated expenses as provided in paragraph (b) above, commencing with the month in which effective. Landlord shall not exercise its rights under this subsection (e) more than once during any Expense Recovery Period.

(f) The term "Building Costs" shall include all expenses of operation and maintenance of the Building, together with the Building's proportionate allotment of the expenses attributable to all appurtenant Common Areas (as defined in Section 6.2), and shall include the following charges by way of illustration but not limitation: water and sewer charges; insurance premiums or reasonable premium equivalents should Landlord elect to self-insure any risk or deductible that Landlord is authorized to insure hereunder; license, permit, and inspection fees; heat; light; power; janitorial services; repairs; air conditioning; supplies; materials; tools; programs instituted to comply with mandatory transportation management requirements; amortization of capital investments reasonably intended to produce a reduction in operating charges or energy conservation; amortization of capital investments necessary to bring the Building into compliance with applicable laws and building codes enacted subsequent to the date of this Lease; labor; reasonably allocated wages and salaries, fringe benefits, and payroll taxes for administrative and other personnel directly applicable to the Building and/or Project, including both Landlord's personnel and outside personnel; any expense incurred pursuant to Sections 6.1, 6.2, 6.4, 7.2, and 10.2 and Exhibits B and C below; and a reasonable management fee. It is understood that Building Costs shall include competitive charges for direct services provided by any subsidiary or division of Landlord. The term "Property Taxes" as used herein shall include the following: (i) all real estate taxes or personal property taxes (which personal property taxes are imposed upon the fixtures, machinery, equipment, apparatus, systems and equipment, appurtenances, furniture and other personal property used in connection with the Building), as such property taxes may be reassessed from time to time, which real property and personal property taxes were paid in connection with the ownership, leasing and operation of the Building or Landlord's interest therein during any Expense Recovery Period; and (ii) other taxes, documentary transfer fees, charges and assessments which are levied with respect to this Lease or to the Building and/or the Project, and any improvements, fixtures and equipment and other property of Landlord located in the Building and/or the Project, except that all excess profits taxes, franchise taxes, gift taxes, capital stock taxes, inheritance and succession taxes, estate taxes, federal and state income taxes, and other taxes to the extent applicable to Landlord's general or net income (as opposed to rents or income attributable to operations at the Building), and any items included as Building Costs shall be excluded; and (iii) any tax, surcharge or assessment which shall be levied in addition to or in lieu of real estate or personal property taxes, other than taxes covered by Article VIII; and (iv) costs and expenses incurred in contesting the amount or validity of any Property Tax by appropriate proceedings. A copy of Landlord's unaudited statement of expenses shall be made available to Tenant upon request. The Building Costs may be extrapolated by Landlord to reflect at least ninety-five percent (95%) occupancy of the rentable area of the Building.

(g) Notwithstanding any contrary provision set forth above, Operating Expenses for purposes of this Lease shall not include:

(1) costs, including marketing costs, legal fees, space planners' fees, advertising and promotional expenses, and brokerage fees incurred in connection with the original construction or development, or original or future leasing of the Project, and costs, including permit, license and inspection costs, incurred with respect to the installation of tenant improvements made for new tenants initially occupying space in the Project after the Lease Commencement Date or incurred in renovating or otherwise improving, decorating, painting or redecorating vacant space for tenants or other occupants of the Project (excluding, however, such costs relating to any common areas of the Project or parking facilities);

(2) depreciation, interest and principal payments on mortgages and other debt costs, if any, or any penalties thereon;

(3) costs for which the Landlord is reimbursed by any tenant or occupant of the Project or by insurance by its carrier or any tenant's carrier or by anyone else, and electric power costs for which any tenant directly contracts with the local public service company;

(4) any bad debt loss, rent loss, or reserves for bad debts or rent loss;

(5) costs associated with the operation of the business of the partnership or entity which constitutes the Landlord, as the same are distinguished from the costs of operation of the Project (which shall specifically include, but not be limited to, accounting costs associated with the operation of the Project). Costs associated with the operation of the business of the partnership or entity which constitutes the Landlord include costs of partnership accounting and legal matters, costs of defending any lawsuits with any mortgagee (except as the actions of the Tenant may be in issue), costs of selling, syndicating, financing, mortgaging or hypothecating any of the Landlord's interest in the Project, and costs incurred in connection with any disputes between Landlord and its employees, between Landlord and Project management, or between Landlord and other tenants or occupants, and Landlord's general corporate overhead and general and administrative expenses;

(6) the wages and benefits of any employee who does not devote substantially all of his or her employed time to the Project unless such wages and benefits are prorated to reflect time spent on operating and managing the Project vis-a-vis time spent on matters unrelated to operating and managing the Project; provided, that in no event shall Operating Expenses for purposes of this Lease include wages and/or benefits attributable to personnel above the level of Project manager;

(7) except for a Project management fee to the extent allowed pursuant to item (l), below, overhead and profit increment paid to the Landlord or to subsidiaries or affiliates of the Landlord for services in the Project to the extent the same exceeds the costs of such services rendered by qualified, first-class unaffiliated third parties on a competitive basis;

(8) any compensation paid to clerks, attendants or other persons in commercial concessions (other than parking) operated by the Landlord;

(9) rentals and other related expenses incurred in leasing air conditioning systems, elevators or other equipment which if purchased the cost of which would be excluded from Operating Expenses as a capital cost, except equipment not affixed to the Project which is used in providing janitorial or similar services and, further excepting from this exclusion such equipment rented or leased to remedy or ameliorate an emergency condition in the Project;

(10) all items and services for which Tenant or any other tenant in the Project reimburses Landlord or which Landlord provides selectively to one or more tenants (other than Tenant) without reimbursement;

(11) costs, other than those incurred in ordinary maintenance and repair, for sculpture, paintings or other objects of art;

(12) fees and reimbursements payable to Landlord (including its affiliates) for management of the Project which would ordinarily be included in a management fee to the extent in excess of the fee comparably paid by other landlords of high-rise office projects in Orange County;

(13) costs incurred to comply with laws relating to the removal of a hazardous material (as defined under applicable law) which was in existence in the Building or on the Project prior to the Lease Commencement Date, and was of such a nature that a federal, State or municipal governmental authority, if it had then had knowledge of the presence of such hazardous material, in the state, and under the conditions that it then existed in the Building or on the Project, would have then required the removal of such hazardous material or other remedial or containment action with respect thereto; and costs incurred to remove, remedy, contain, or treat hazardous material, which hazardous material is brought into the Building or onto the Project after the date hereof by Landlord or any other tenant of the Project and is of such a nature, at that time, that a federal, State or municipal governmental authority, if it had then had knowledge of the presence of such hazardous material, in the state, and under the conditions, that it then exists in the Building or on the Project, would have then required the removal of such hazardous material or other remedial or containment action with respect thereto;

(14) costs arising from Landlord's charitable or political contributions;

(15) advertising and promotional expenditures by Landlord;

(16) costs, fines and penalties incurred due to the violation by Landlord of any governmental rule or regulation, or due to the negligence or wilful misconduct of Landlord or its agents, employees, vendors, contractors, or providers of materials or services;

(17) any reserves retained by Landlord;

(18) costs incurred by Landlord for expenditures which are considered capital improvements and replacements under generally accepted accounting principles, consistently applied, except for those expenditures incurred to comply with new laws and/or to reduce other Building Costs as authorized under subsection (f) above;

(19) costs incurred due to the violation by Landlord or any other tenant of the terms and conditions of any lease of space in the Building;

(20) costs of general overhead and general administrative expenses;

(21) amounts paid as ground rental for the Project by the Landlord;

(22) any costs expressly excluded from Operating Expenses elsewhere in this Lease;

(23) the cost of any magazine, newspaper, trade or other subscriptions;

(24) any costs covered by any warranty, rebate, guarantee or service contract which are actually collected by Landlord (which shall not prohibit Landlord from passing through the costs of any such service contract if otherwise includable in Operating Expenses);

(25) tax penalties incurred as a result of Landlord's negligence, inability or unwillingness to make payments or file returns when due;

(26) rent for any office space occupied by Project or Building management personnel to the extent the size or rental rate of such office space exceeds the size or fair market rental value of office space occupied by management personnel of comparable buildings in the vicinity of the Project, with adjustment for size where appropriate for the size of the applicable project (it being understood that the current office size as of the date hereof is approved); and

(27) costs arising from the negligence or willful misconduct of Landlord, its partners and their respective officers, agents, servants, employees and independent contractors.

Landlord shall not (i) make a profit by charging items to Operating Expenses that are otherwise also charged separately to others and (ii) collect Operating Expenses from Tenant and all other tenants in the Building in an amount in excess of what Landlord incurs for the items included in Operating Expenses. In the event Landlord incurs costs during any calendar year after the Base Year relating to insurance premiums from earthquake insurance which were not part of Operating Expenses during the Base Year, Operating Expenses for the Base Year shall be deemed increased by the amounts Landlord would have incurred during the Base Year with respect to such insurance premiums had such earthquake insurance been carried by Landlord during the Base Year.

(h) Provided Tenant is not then in default hereunder, Tenant shall have the right to cause a certified public accountant, engaged on a non-contingency fee basis, to audit Operating Expenses by inspecting Landlord's general ledger of expenses not more than once during any Expense Recovery Period. However, to the extent that insurance premiums or any other component of Operating Expenses is determined by Landlord on the basis of an internal allocation of costs utilizing information Landlord in good faith deems proprietary, such expense component shall not be subject to audit so long as it does not exceed the amount per square foot typically imposed by landlords of other first class office projects in Orange County, California. Tenant shall

give notice to Landlord of Tenant's intent to audit within six (6) months after Tenant's receipt of Landlord's expense statement which sets forth Landlord's actual Operating Expenses. Such audit shall be conducted at a mutually agreeable time during normal business hours at the office of Landlord or its management agent where such accounts are maintained. If Tenant's audit determines that actual Operating Expenses have been overstated by more than five percent (5%), then subject to Landlord's right to review and/or contest the audit results, Landlord shall reimburse Tenant for the reasonable out-of-pocket costs of such audit. Tenant's rent shall be appropriately adjusted to reflect any overstatement in Operating Expenses (or, if the determination is made after the end of the Lease Term, any sums owing to Tenant shall be paid within thirty (30) days). In addition, if any component of Operating Expenses is determined to be either inappropriate or excessive during an Expense Recovery Period, and if the Building Cost Base or Property Tax Base also included such component, then the appropriate Base shall concurrently be adjusted if and to the extent reasonably appropriate, subject to Tenant's right to review the Base Year expenses for that component. In the event of a dispute between Landlord and Tenant regarding such audit, either party may elect to submit the matter for binding arbitration pursuant to Section 14.7(b) below. All of the information obtained by Tenant and/or its auditor in connection with such audit, as well as any compromise, settlement, or adjustment reached between Landlord and Tenant as a result thereof, shall be held in strict confidence and, except as may be required pursuant to litigation, shall not be disclosed to any third party, directly or indirectly, by Tenant or its auditor or any of their officers, agents or employees. Landlord may require Tenant's auditor to execute a separate confidentiality agreement affirming the foregoing as a condition precedent to any audit. Notwithstanding the foregoing, Tenant shall have no right of audit with respect to any Expense Recovery Period unless the total Operating Expenses per square foot for such Expense Recovery Period, as set forth in Landlord's annual expense reconciliation, exceed the total Operating Expenses per square foot during the Base Year, as increased by the percentage change in the United States Department of Labor, Bureau of Labor Statistics, Consumer Price Index for all Urban Consumers, Los Angeles - Riverside - Orange County Area Average, all items (1982-84 = 100) (the "Index"), which change in the Index shall be measured by comparing the Index published for January of the Base Year with the Index published for January of the applicable Expense Recovery Period.

SECTION 4.3. SECURITY DEPOSIT. Concurrently with Tenant's delivery of this Lease, Tenant shall deposit with Landlord the sum, if any, stated in Item 9 of the Basic Lease Provisions (the "Security Deposit"), to be held by Landlord as security for the full and faithful performance of Tenant's obligations under this Lease to pay any rent as and when due, including without limitation such additional rent as may be owing under any provision hereof, and to maintain the Premises as required by Sections 7.1 and 15.3 or any other provision of this Lease. Upon any breach of those obligations by Tenant following the expiration of any applicable notice and cure period, Landlord may apply all or part of the Security Deposit as full or partial compensation. If any portion of the Security Deposit is so applied, Tenant shall within ten (10) business days after written demand by Landlord deposit cash with Landlord in an amount sufficient to restore the Security Deposit to its original amount. Landlord shall not be required to keep this Security Deposit separate from its general funds, and Tenant shall not be entitled to interest on the Security Deposit. In no event may Tenant utilize all or any portion of the Security Deposit as a payment toward any rental sum due under this Lease. If Tenant fully performs its obligations under this Lease, the Security Deposit or any balance thereof shall be returned to Tenant or, at Landlord's option, to the last assignee of Tenant's interest in this Lease within thirty (30) days following the expiration or earlier termination of this Lease and Tenant's vacation of the Premises.

ARTICLE V. USES

SECTION 5.1. USE. Tenant shall use the Premises only for the purposes stated in Item 3 of the Basic Lease Provisions. Tenant shall not do or permit anything to be done in or about the Premises which will in any way unreasonably interfere with the rights or quiet enjoyment of other occupants of the Building or the Project, or use or allow the Premises to be used for any unlawful purpose, nor shall Tenant permit any nuisance or commit any waste in the Premises or the Project. Tenant shall not do or permit to be done anything which will invalidate or increase the cost of any insurance policy(ies) covering the Building, the Project and/or their contents, and shall comply with all applicable reasonable insurance underwriters rules of which Tenant has received written notice. Tenant shall comply at its expense with all present and future laws, ordinances and requirements of all governmental authorities that pertain to Tenant or its use of the Premises for non-general office use, including without limitation all federal and state occupational health and safety and handicap access requirements, whether or not Tenant's compliance will necessitate expenditures or interfere with its use and enjoyment of the Premises. Tenant shall not generate, handle, store or dispose of hazardous or toxic materials (as such materials may be identified in any federal, state or local law or regulation) in the Premises or Project without the prior written consent of Landlord; provided that the foregoing shall not be deemed to proscribe the use by Tenant of customary office supplies in normal quantities so long as such use comports with all applicable laws. Tenant agrees that it shall promptly complete and deliver to Landlord any disclosure form regarding hazardous or toxic materials that may be required by any governmental agency. Tenant shall also, from time to time upon request by Landlord, execute such commercially reasonable affidavits concerning Tenant's best knowledge and belief regarding the presence of hazardous or toxic materials in the Premises. Notwithstanding anything to the contrary set forth in this Lease, Tenant shall have no obligation to clean up, remediate, monitor, or abate, or to reimburse, release, indemnify or defend Landlord with respect to, any hazardous materials which Tenant did not cause to be introduced onto the Premises or any other portion of the Building. Landlord shall have the right at any time to perform an assessment of the environmental condition of the Premises and of Tenant's compliance with this Section. As part of any such assessment, Landlord shall have the right, upon reasonable prior notice to Tenant, to enter and inspect the Premises and to perform tests, provided those tests are performed in a manner that minimizes disruption to Tenant. Tenant will cooperate with Landlord in connection with any assessment by, among other things, promptly responding to inquiries and providing relevant documentation and records. The reasonable cost of the assessment/testing shall be reimbursed by Tenant to Landlord if such assessment/testing determines that Tenant failed in a material way to comply with the requirements of this Section. In all events Tenant shall indemnify Landlord in the manner elsewhere provided in this Lease from any release of hazardous or toxic materials caused by Tenant, its agents, employees, contractors, subtenants or licensees. The foregoing covenants shall survive the expiration or earlier termination of this Lease.

SECTION 5.2. SIGNS. Landlord shall, upon request by Tenant and at Tenant's expense, affix and maintain a sign (restricted solely to Tenant's name as set forth herein or such other name as Landlord may consent to in writing) adjacent to the entry door of the Premises, together with a proportional allotment of directory strips in the lobby directory of the Building; provided that the cost of such initial signage and directory strips shall be borne by Landlord. The signage shall conform to the criteria for signs established by Landlord and shall be ordered through Landlord. Tenant shall not place or allow to be placed any other sign, decoration or advertising matter of any kind that is visible from the exterior of the Premises. Any violating sign or decoration may, if not removed by Tenant within twenty-four hours after written or oral notice from Landlord, be removed by Landlord at Tenant's expense without the removal constituting a breach of this Lease or entitling Tenant to claim damages.

SECTION 5.3. TENANT'S SECURITY SYSTEM. Tenant may, at its own expense, subject to Landlord's prior written consent, which consent shall not be unreasonably conditioned, withheld or delayed, install its own security system ("Tenant's Security System") in the Premises, provided that Tenant shall coordinate the installation and operation of Tenant's Security System with Landlord to assure that Tenant's Security System is compatible with any security system of Landlord and the systems and equipment of the Building. Tenant shall be solely responsible, at Tenant's sole cost and expense, for the monitoring, operation and removal of Tenant's Security System.

ARTICLE VI. LANDLORD SERVICES

SECTION 6.1. UTILITIES AND SERVICES. Landlord shall furnish to the Premises the utilities and services described in Exhibit B. Except as set forth in Section 6.6 below, Landlord shall not be liable for any failure to furnish any services or utilities when the failure is the result of any accident or other cause beyond Landlord's reasonable control, nor shall Landlord be liable for damages resulting from power surges or any breakdown in telecommunications facilities or services except to the extent arising from Landlord's negligence or willful misconduct and not covered by Tenant's insurance. Except as set forth in Section 6.6 below, Landlord's temporary inability to furnish any services or utilities shall not entitle Tenant to any damages, relieve Tenant of the obligation to pay rent or constitute a constructive or other eviction of Tenant, except that Landlord shall diligently attempt to restore the service or utility promptly. Tenant shall comply with all nondiscriminatory rules and regulations which Landlord may reasonably establish for the provision of services and utilities, and shall cooperate with all reasonable conservation practices established by Landlord. Upon reasonable prior written or oral notice, Landlord shall at all reasonable times have free access to all electrical and mechanical installations of Landlord.

SECTION 6.2. OPERATION AND MAINTENANCE OF COMMON AREAS. During the Term, Landlord shall operate all Common Areas within the Building and the Project. The term "Common Areas" shall mean all areas within the Building and other buildings in the Project which are not held for exclusive use by persons entitled to occupy space, and all other appurtenant areas and improvements provided by Landlord for the common use of Landlord and tenants and their respective employees and invitees, including without limitation parking areas and structures, driveways, sidewalks, landscaped and planted areas, hallways and interior stairwells not located within the premises of any tenant, common entrances and lobbies, elevators, and restrooms not located within the premises of any tenant.

SECTION 6.3. USE OF COMMON AREAS. The occupancy by Tenant of the Premises shall include the use of the Common Areas in common with Landlord and with all others for whose convenience and use the Common Areas may be provided by Landlord, subject, however, to compliance with all reasonable nondiscriminatory rules and regulations as are prescribed from time to time by Landlord. Landlord shall at all times during the Term have exclusive control of the Common Areas, and may reasonably restrain or permit any use or occupancy, except as otherwise provided in this Lease or in Landlord's rules and regulations. Tenant shall keep the Common Areas clear of any obstruction or unauthorized use related to Tenant's operations. Landlord may temporarily close any portion of the Common Areas for repairs, remodeling and/or alterations, to prevent a public dedication or the accrual of prescriptive rights, or for any other reasonable purpose, but Landlord shall not thereby interfere with Tenant's use of or access to the Premises.

SECTION 6.4. PARKING. Parking shall be provided in accordance with the provisions set forth in Exhibit C to this Lease.

SECTION 6.5. CHANGES AND ADDITIONS BY LANDLORD. Landlord reserves the right to make alterations or additions to the Building or the Project, or to the attendant fixtures, equipment and Common Areas. No change shall entitle Tenant to any abatement of rent or other claim against Landlord, provided that the change does not materially adversely affect Tenant's access to or use of the Premises.

SECTION 6.6. ABATEMENT. If Tenant is prevented from using, and does not use, the Premises, or any portion thereof, for five (5) consecutive business days (the "Eligibility Period") as a result of any failure of Landlord to provide services, utilities, or access to the Premises, or due to the presence of hazardous materials not introduced by Tenant, its agents or contractors, then rent payable by Tenant shall be abated or reduced, as the case may be, after expiration of the Eligibility Period for such time that Tenant continues to be so prevented from using, and does not use, the Premises or a portion thereof, in the proportion that the rentable area of the portion of the Premises that Tenant is prevented from using, and does not use, bears to the total rentable area of the Premises. However, if Tenant is prevented from conducting, and does not

conduct, its business in a portion of the Premises for a period of time in excess of the Eligibility Period, and the remaining portion of the Premises is not sufficient to allow Tenant to effectively conduct its business therein, and if Tenant does not conduct its business from such remaining portion, then for such time after expiration of the Eligibility Period during which Tenant is so prevented from effectively conducting its business therein, the rent payable by Tenant for the entire Premises shall be abated. If Tenant thereafter reoccupies and conducts its business from any portion of the Premises during such period, then the Rent allocable to such reoccupied portion, based on the proportion that the rentable area of such reoccupied portion of the Premises bears to the total rentable area of the Premises, shall be payable by Tenant from the date such business operations commence.

ARTICLE VII. MAINTAINING THE PREMISES

SECTION 7.1. TENANT'S MAINTENANCE AND REPAIR. Subject to Article XI, Tenant at its sole expense shall make all repairs reasonably necessary to keep the Premises and all improvements and fixtures therein in the condition as existed on the Commencement Date (or on any later date that the applicable improvements may have been installed), excepting ordinary wear and tear. Notwithstanding Section 7.2 below, Tenant's maintenance obligation shall include without limitation all appliances, non-building standard lighting/electrical systems, and plumbing fixtures and installations located within or servicing only the Premises. All repairs shall be at least equal in quality to the original work, shall be made only by a licensed, bonded contractor reasonably approved in writing in advance by Landlord and shall be made only at the time or times reasonably approved by Landlord. Any contractor utilized by Tenant shall be subject to Landlord's reasonable standard requirements for contractors, as modified from time to time. Landlord may impose reasonable restrictions and requirements with respect to repairs, as provided in Section 7.3, and the provisions of Section 7.4 shall apply to all repairs. Alternatively, should Landlord or its management agent agree to make a repair on behalf of Tenant and at Tenant's request, Tenant shall promptly reimburse Landlord as additional rent for all costs incurred within thirty (30) days following delivery of an invoice.

SECTION 7.2. LANDLORD'S MAINTENANCE AND REPAIR. Subject to Article XI, Landlord shall provide service, maintenance and repair with respect to the heating, ventilating and air conditioning ("HVAC") equipment of the Building (exclusive of any supplemental HVAC equipment servicing only the Premises) and shall maintain in good repair the Common Areas, roof, foundations, footings, the exterior surfaces of the exterior walls of the Building, and the structural, electrical, mechanical and plumbing systems of the Building except as provided in Section 7.1 above. Landlord shall have the right to employ or designate any reputable person or firm, including any employee or agent of Landlord or any of Landlord's affiliates or divisions, to perform any service, repair or maintenance function provided such agents and/or affiliates perform first class work at prices which are competitive with other first class contractors performing similar work. Landlord need not make any other improvements or repairs except as specifically required under this Lease, and nothing contained in this Section shall limit Landlord's right to reimbursement from Tenant for maintenance, repair costs and replacement costs as provided elsewhere in this Lease. Tenant understands that it shall not make repairs at Landlord's expense or by rental offset. Except as provided in Sections 6.6, 11.1 and 12.1 below, there shall be no abatement of rent and no liability of Landlord by reason of any injury to or interference with Tenant's business arising from the making of any repairs, alterations or improvements to any portion of the Building, including repairs to the Premises, nor shall any related activity by Landlord constitute an actual or constructive eviction; provided, however, that in making repairs, alterations or improvements, Landlord shall use commercially reasonable efforts to avoid or minimize any interference with Tenant's access to the Premises or parking areas and with the conduct of Tenant's business in the Premises. In no event shall Landlord change the nature of the Building to something other than a first class office building project. Landlord shall comply with all laws, statutes, ordinances or other governmental rules, regulations or requirements now in force or which may hereafter be enacted relating to the base Building and the Common Areas within the Project, provided that compliance is not the responsibility of Tenant.

SECTION 7.3. ALTERATIONS. Tenant shall make no alterations, additions or improvements to the Premises without the prior written consent of Landlord, which consent shall be given or refused within ten (10) business days. Landlord's consent shall not be unreasonably withheld as long as the proposed changes do not affect the structural, electrical or mechanical components or systems of the Building, are not visible from the exterior of the Premises, and utilize only building standard materials. Moreover, as long as the foregoing criteria are satisfied, Landlord's consent shall not be required (but prior written notice to Landlord must be given) for cosmetic alternations costing in the aggregate not more than Forty Thousand Dollars ($40,000.00). Landlord may impose, as a condition to its consent, any requirements that Landlord in its discretion may deem reasonable, including but not limited to requirements as to the manner and time for performance of the work. Without limiting the generality of the foregoing, Tenant shall use Landlord's designated mechanical and electrical contractors for all work affecting the mechanical or electrical systems of the Building. Should Tenant perform any work that would necessitate any ancillary Building modification or other expenditure by Landlord, then Tenant shall promptly fund the reasonable cost thereof to Landlord. Tenant shall obtain all required permits for the work and shall perform the work in compliance with all applicable laws, regulations and ordinances, and Landlord shall be entitled to a supervision fee in the amount uniformly established by Landlord for the Building, but not in excess of five percent (5%) of the cost of the work. Under no circumstances shall Tenant make any improvement which incorporates asbestos-containing construction materials into the Premises. Any request for Landlord's consent shall be made in writing and, if applicable, shall contain architectural plans describing the work in detail reasonably satisfactory to Landlord. Landlord may elect to cause its architect to review Tenant's architectural plans, and the reasonable cost of that review shall be reimbursed by Tenant. Should the work proposed by Tenant modify the internal configuration of the Premises, then Tenant shall, at its expense, furnish Landlord with as-built drawings and CAD disks compatible with Landlord's systems. Unless Landlord otherwise agrees in writing, all alterations, additions or improvements affixed to the Premises (excluding moveable trade fixtures and furniture) shall become the property of Landlord and shall be surrendered with the Premises at the end of the Term, except that Landlord may, by notice to Tenant given at the time of Landlord's consent to the alteration or improvement, require Tenant to remove by the Expiration Date, or sooner termination date of this Lease, all or any alterations, decorations, fixtures, additions, improvements and the like installed either by Tenant or by Landlord at Tenant's request and to repair any damage to the Premises arising from that removal. Landlord may require Tenant to remove an improvement provided as part of the initial build-out pursuant to Exhibit X, if any, if and only if the improvement is a non-building standard item and Tenant is notified of the requirement in writing prior to the build-out. Except as otherwise provided in this Lease or in any Exhibit to this Lease, should Landlord make any alteration or improvement to the Premises at the request of Tenant, Landlord shall be entitled to prompt payment from Tenant of the reasonable cost thereof, inclusive of the standard coordination fee of Landlord's management agent uniformly established for the Project.

SECTION 7.4. MECHANIC'S LIENS. Tenant shall keep the Premises free from any liens arising out of any work performed, materials furnished, or obligations incurred by or for Tenant. Upon request by Landlord, Tenant shall promptly cause any such lien to be released by posting a bond in accordance with California Civil Code Section 3143 or any successor statute. In the event that Tenant shall not, within thirty (30) days following the imposition of any lien, cause the lien to be released of record by payment or posting of a proper bond, Landlord shall have, in addition to all other available remedies, the right to cause the lien to be released by any means it deems proper, including payment of or defense against the claim giving rise to the lien. All reasonable expenses so incurred by Landlord, including Landlord's reasonable attorneys' fees, shall be reimbursed by Tenant promptly following Landlord's demand, together with interest from the date of payment by Landlord at the rate of ten percent (10%) per annum until paid. Tenant shall give Landlord no less than fifteen (15) days' prior notice in writing before commencing construction of any kind on the Premises so that Landlord may post and maintain notices of nonresponsibility on the Premises.

SECTION 7.5. ENTRY AND INSPECTION. Landlord shall upon reasonable prior written or oral notice and at all reasonable times have the right to enter the Premises to inspect them, to supply services in accordance with this Lease, to protect the interests of Landlord in the Premises, to make repairs and renovations as reasonably deemed necessary by Landlord, and to submit the Premises to prospective or actual purchasers or encumbrance holders (or, during the final nine months of the Term or when an uncured monetary or other material Tenant default exists, to prospective tenants), all without being deemed to have caused an eviction of Tenant and without abatement of rent except as provided elsewhere in this Lease. Landlord shall at all times have and retain a key which unlocks all of the doors in the Premises, excluding Tenant's vaults and safes, and Landlord shall have the right to use any and all means which Landlord may reasonably deem proper to open the doors in an emergency in order to obtain entry to the Premises, and any entry to the Premises obtained by Landlord shall not under any circumstances be deemed to be a forcible or unlawful entry into, or a detainer of, the Premises, or any eviction of Tenant from the Premises. In exercising Landlord's rights under this Section 7.5, Landlord shall use commercially reasonably efforts to not interfere with Tenant's use of, or access to, the Premises.

SECTION 7.6. SPACE PLANNING AND SUBSTITUTION. Landlord shall have the one-time right, upon providing not less than forty-five (45) days written notice, to move Tenant to other space of comparable size and on the same floor or above in the Building or in one of the buildings located at 610, 620 or 660 Newport Center Drive. The new space shall be provided with improvements of comparable quality to those within the Premises and shall have a comparable interior configuration. Landlord shall pay the reasonable out-of-pocket costs to relocate and reconnect Tenant's personal property and equipment within the new space; provided that Landlord may elect to cause such work to be done by its contractors. Landlord shall also reimburse Tenant for such other reasonable out-of-pocket costs that Tenant may incur in connection with the relocation, including without limitation necessary stationery revisions, provided that a reasonable estimate thereof is given to Landlord within twenty (20) days following Landlord's notice. In no event, however, shall Landlord be obligated to incur or fund total relocation costs, exclusive of tenant improvement expenditures, in an amount in excess of three (3) months of Basic Rent at the rate then payable hereunder. Should Tenant be relocated by Landlord pursuant to this Section, Tenant shall also be afforded an abatement of the first full month of Basic Rent for the new space. Within ten (10) business days following request by Landlord, Tenant shall execute an amendment to this Lease prepared by Landlord to memorialize the relocation. Notwithstanding the foregoing, in the event the new space designated by Landlord not be acceptable to Tenant for any reason, then Tenant may, by written notice to Landlord within ten (10) business days following Landlord's relocation notice, elect to terminate this Lease without penalty, which termination shall be effective sixty (60) days following delivery of Landlord's relocation notice unless otherwise agreed in writing by the parties.

ARTICLE VIII. TAXES AND ASSESSMENTS ON TENANT'S PROPERTY

Tenant shall be liable for and shall pay before delinquency, all taxes and assessments levied against all personal property of Tenant located in the Premises. When possible Tenant shall cause its personal property to be assessed and billed separately from the real property of which the Premises form a part. If any taxes on Tenant's personal property are levied against Landlord or Landlord's property and if Landlord pays the same, or if the assessed value of Landlord's property is increased by the inclusion of a value placed upon the personal property of Tenant and if Landlord pays the taxes based upon the increased assessment, Tenant shall pay to Landlord the taxes so levied against Landlord or the proportion of the taxes resulting from the increase in the assessment.

ARTICLE IX. ASSIGNMENT AND SUBLETTING

SECTION 9.1. RIGHTS OF PARTIES.

(a) Tenant may not, either voluntarily or by operation of law, assign, sublet, encumber, or otherwise transfer all or any part of Tenant's interest in this Lease, or permit the Premises to be occupied by anyone other than Tenant, without Landlord's prior written consent, which consent shall not unreasonably be withheld in accordance with the provisions of Section 9.1.(c). For purposes of this Lease, references to any subletting, sublease or variation thereof shall be deemed to apply not only to a sublease effected directly by Tenant, but also to a sub-subletting or an assignment of subtenancy by a subtenant at any level. No assignment (whether voluntary, involuntary or by operation of law) and no subletting shall be valid or effective without Landlord's prior written consent. Landlord shall not be deemed to have given its consent to any assignment or subletting by any other course of action, including its acceptance of any name for listing in the Building directory. To the extent not prohibited by provisions of the Bankruptcy Code, 11 U.S.C. Section 101 et seq. (the "Bankruptcy Code"), including Section 365(f)(1), Tenant on behalf of itself and its creditors, administrators and assigns waives the applicability of Section 365(e) of the Bankruptcy Code unless the proposed assignee of the Trustee for the estate of the bankrupt meets Landlord's standard for consent as set forth in Section 9.1(c) of this Lease. If this Lease is assigned to any person or entity pursuant to the provisions of the Bankruptcy Code, any and all monies or other considerations to be delivered in connection with the assignment shall be delivered to Landlord, shall be and remain the exclusive property of Landlord and shall not constitute property of Tenant or of the estate of Tenant within the meaning of the Bankruptcy Code. Any person or entity to which this Lease is assigned pursuant to the provisions of the Bankruptcy Code shall be deemed to have assumed all of the obligations arising under this Lease on and after the date of the assignment, and shall upon demand execute and deliver to Landlord an instrument confirming that assumption.

(b) [Intentionally omitted]

(c) If Tenant or any subtenant hereunder desires to transfer an interest in this Lease, Tenant shall first notify Landlord and request in writing Landlord's consent to the transfer. Tenant shall also submit in writing to Landlord: (i) the name and address of the proposed transferee; (ii) the nature of any proposed subtenant's or assignee's business to be carried on in the Premises; (iii) the terms and provisions of any proposed sublease or assignment (including without limitation the rent and other economic provisions, term, improvement obligations and commencement date); (iv) any other information reasonably requested by Landlord and reasonably related to the transfer. Except as provided in Subsection (d) of this Section, Landlord shall not unreasonably withhold its consent, provided: (1) the use of the Premises will be consistent with the provisions of this Lease and with Landlord's commitment to other tenants of the Building and Project; (2) any proposed assignee demonstrates that it is financially responsible by submission to Landlord of all reasonable information as Landlord may request concerning the proposed assignee, including, but not limited to, a balance sheet of the proposed assignee as of a date within ninety (90) days of the request for Landlord's consent and statements of income or profit and loss of the proposed assignee for the two-year period preceding the request for Landlord's consent; (3) the proposed assignee or subtenant is neither an existing tenant or occupant of the Building or Project nor a prospective tenant with whom Landlord is then actively negotiating unless Landlord does not have sufficient available space in the Building to offer for lease; and (4) the proposed transfer will not impose additional burdens or adverse tax effects on Landlord. If Landlord consents to the proposed transfer, then the transfer may be effected within one hundred eighty (180) days after the date of the consent upon the terms described in the information furnished to Landlord; provided that any material change in the terms shall be subject to Landlord's consent as set forth in this Section. Landlord shall approve or disapprove any requested transfer within fifteen (15) days following receipt of Tenant's written notice and the information set forth above. Tenant shall pay to Landlord a transfer fee of Five Hundred Dollars ($500.00) if and when any transfer request submitted by Tenant is approved.

(d) Notwithstanding the provisions of Subsection (c) above, in lieu of consenting to a proposed assignment or subletting of the entire Premises, Landlord may elect to terminate this Lease, effective on the date that the proposed sublease or assignment would have commenced. Landlord may thereafter, at its option, assign or re-let any space so recaptured to any third party, including without limitation the proposed transferee identified by Tenant. Notwithstanding the foregoing, however, should Landlord exercise its right of recapture pursuant to this subsection, Tenant may, within five (5) business days following delivery of Landlord's recapture notice, elect by written notice to rescind Tenant's request to sublease or assign this Lease, in which event Landlord's recapture election shall be null and void.

(e) Should any assignment or subletting occur, Tenant shall promptly pay or cause to be paid to Landlord, as additional rent, fifty percent (50%) of any amounts paid by the assignee or subtenant, after all rental abatements and however described and whether funded during or after the Lease Term (but exclusive of sums attributable to the sale of Tenant's business, if applicable), to the extent such amounts are in excess of the sum of (i) the scheduled rental sums payable by Tenant hereunder (or, in the event of a subletting of only a portion of the Premises, the rent allocable to such portion as reasonably determined by Landlord) and (ii) the direct out-of-pocket costs, as evidenced by third party invoices provided to Landlord, incurred by Tenant to effect the transfer. Upon request by Landlord, Tenant and all other parties to the transfer shall memorialize in writing the amounts to be paid pursuant to this paragraph.

(f) Notwithstanding the foregoing, provided Tenant is not then in default hereunder, Tenant may, without Landlord's prior consent but with written notice to Landlord and subject to the provisions of Section 9.2, assign or transfer its right, title and interest in this Lease or sublease the Premises to any of the following: (i) any entity resulting from a merger or consolidation with Tenant; (ii) any entity succeeding to the business and assets of Tenant; or (iii) any entity controlling, controlled by, or under common control with, Tenant (collectively, "Tenant Affiliate"). For purposes of the foregoing, "control" shall mean the ownership, directly or indirectly, of at least fifty percent (50%) of the voting securities of, or possession of the right to vote, in the ordinary direction of its affairs, of at least fifty percent (50%) of the voting interest in the entity.

SECTION 9.2. EFFECT OF TRANSFER. No subletting or assignment, even with the consent of Landlord, shall relieve Tenant, or any successor-in-interest to Tenant hereunder, of its obligation to pay rent and to perform all its other obligations under this Lease. Moreover, Tenant shall indemnify and hold Landlord harmless, as provided in Section 10.3, for any act or omission by an assignee or subtenant. Each assignee, other than Landlord, shall be deemed to assume all obligations of Tenant under this Lease and shall be liable jointly and severally with Tenant for the payment of all rent, and for the due performance of all of Tenant's obligations, under this Lease. Such joint and several liability shall not be discharged or impaired by any subsequent modification or extension of this Lease. No transfer to other than a Tenant Affiliate shall be binding on Landlord unless any document memorializing the transfer is delivered to Landlord and both the assignee/subtenant and Tenant deliver to Landlord an executed and commercially reasonable consent to transfer instrument prepared by Landlord and consistent with the requirements of this Article. The acceptance by Landlord of any payment due under this Lease from any other person shall not be deemed to be a waiver by Landlord of any provision of this Lease or to be a consent to any transfer. Consent by Landlord to one or more transfers shall not operate as a waiver or estoppel to the future enforcement by Landlord of its rights under this Lease. In addition to the foregoing, no change in the status of Tenant or any party jointly and severally liable with Tenant as aforesaid (e.g., by conversion to a limited liability company or partnership) shall serve to abrogate the liability of any person or entity for the obligations of Tenant, including any obligations that may be incurred by Tenant after the status change by exercise of a pre-existing right in this Lease.

SECTION 9.3. SUBLEASE REQUIREMENTS. The following terms and conditions shall apply to any subletting by Tenant of all or any part of the Premises and shall be included in each sublease:

(a) Tenant hereby irrevocably assigns to Landlord all of Tenant's interest in all rentals and income arising from any sublease of the Premises, and Landlord may collect such rent and income and apply same toward Tenant's obligations under this Lease; provided, however, that until a default occurs in the performance of Tenant's obligations under this Lease and is not timely cured by Tenant as required herein, Tenant shall have the right to receive and collect the sublease rentals. Landlord shall not, by reason of this assignment or the collection of sublease rentals, be deemed liable to the subtenant for the performance of any of Tenant's obligations under the sublease. Tenant hereby irrevocably authorizes and directs any subtenant, upon receipt of a written notice from Landlord stating that an uncured default exists in the performance of Tenant's obligations under this Lease, to pay to Landlord all sums then and thereafter due under the sublease. Tenant agrees that the subtenant may rely on that notice without any duty of further inquiry and notwithstanding any notice or claim by Tenant to the contrary. Tenant shall have no right or claim against the subtenant or Landlord for any rentals so paid to Landlord. In the event Landlord collects amounts from subtenants that exceed the total amount then due from Tenant hereunder, Landlord shall promptly remit the excess to Tenant.

(b) In the event of the termination of this Lease, Landlord may, at its sole option, take over Tenant's entire interest in any sublease and, upon notice from Landlord, the subtenant shall attorn to Landlord. In no event, however, shall Landlord be liable for any previous act or omission by Tenant under the sublease or for the return of any advance rental payments or deposits under the sublease that have not been actually delivered to Landlord, nor shall Landlord be bound by any sublease modification executed without Landlord's consent or for any advance rental payment by the subtenant in excess of one month's rent. The general provisions of this Lease, including without limitation those pertaining to insurance and indemnification, shall be deemed incorporated by reference into the sublease despite the termination of this Lease.

ARTICLE X. INSURANCE AND INDEMNITY

SECTION 10.1. TENANT'S INSURANCE. Tenant, at its sole cost and expense, shall provide and maintain in effect the insurance described in Exhibit D. Evidence of that insurance must be delivered to Landlord prior to the Commencement Date.

SECTION 10.2. LANDLORD'S INSURANCE. Landlord may, at its election, provide any or all of the following types of insurance, with or without deductible and in amounts and coverages as may be determined by Landlord in its reasonable discretion: "all risk" property insurance, subject to standard exclusions, covering the Building or Project, and such other risks as Landlord or its mortgagees may from time to time deem appropriate, and commercial general liability coverage. Notwithstanding the foregoing, Landlord shall at a minimum carry insurance with coverages and amounts comparable to that carried by landlords of comparable first class office projects in the Newport Beach area (except that Landlord may self-insure a portion of such risks), together with workers' compensation and employer liability coverage as required by applicable law. Landlord shall not be required to carry insurance of any kind on improvements, trade fixtures, furnishings, equipment, interior plate glass, signs and all items of personal property in the Premises, and shall not be obligated to repair or replace that property should damage occur. All proceeds of insurance maintained by Landlord upon the Building and Project shall be the property of Landlord, whether or not Landlord is obligated to or elects to make any repairs.

SECTION 10.3. INDEMNITY.

(a) To the fullest extent permitted by law, Tenant shall defend, indemnify and hold harmless Landlord, its agents, lenders, and any and all affiliates of Landlord, from and against any and all claims, liabilities, costs or expenses arising either before or after the Commencement Date from Tenant's use or occupancy of the Premises, the Building or the Common Areas, or from the conduct of its business, or from any activity, work, or thing done, permitted or suffered by Tenant or its agents, employees, subtenants, vendors, contractors or licensees in or about the Premises, the Building or the Common Areas, or from any default in the performance of any obligation on Tenant's part to be performed under this Lease, or from any willful misconduct or negligence of Tenant or its agents, employees, subtenants, vendors, contractors or licensees. Landlord may, at its option, require Tenant to assume Landlord's defense in any action covered by this Section through counsel reasonably satisfactory to Landlord.

(b) Landlord shall indemnify and hold harmless Tenant from and against any liability to third parties, together with any attorneys fees, costs and expenses reasonably incurred in connection with such third party claims, to the extent arising out of the negligence or willful misconduct of Landlord or Landlord's breach of this Lease.

SECTION 10.4. LANDLORD'S NONLIABILITY. Landlord shall not be liable to Tenant, its employees, agents and invitees, and Tenant hereby waives all claims against Landlord, its employees and agents for loss of or damage to any property, or any injury to any person, or loss or interruption of business or income, resulting from any condition including, but not limited to, fire, explosion, falling plaster, steam, gas, electricity, water or rain which may leak or flow from or into any part of the Premises or from the breakage, leakage, obstruction or other defects of the pipes, sprinklers, wires, appliances, plumbing, air conditioning, electrical works or other fixtures in the Building, whether the damage or injury results from conditions arising in the Premises or in other portions of the Building. It is understood that any such condition may require the temporary evacuation or closure of all or a portion of the Building. Should Tenant elect to receive any service from a concessionaire, licensee or third party tenant of Landlord, Tenant shall not seek recourse against Landlord for any breach or liability of that service provider. Neither Landlord nor its agents shall be liable for interference with light or other similar intangible interests. Tenant shall immediately notify Landlord in case of fire or accident in the Premises, the Building or the Project and of defects in any improvements or equipment unless Landlord already has knowledge thereof.

SECTION 10.5. WAIVER OF SUBROGATION. Landlord and Tenant each hereby waives all rights of recovery against the other on account of loss and damage occasioned to the property of such waiving party to the extent that the waiving party is entitled to proceeds for such loss and damage under any "all risk" property insurance policies carried or otherwise required to be carried by this Lease. By this waiver it is the intent of the parties that neither Landlord nor Tenant shall be liable to any insurance company (by way of subrogation or otherwise) insuring the other party for any loss or damage insured against under any "all risk" property insurance policies, even though such loss or damage might be occasioned by the negligence of such party, its agents, employees, or contractors. The foregoing waiver by Tenant shall also inure to the benefit of Landlord's management agent for the Building.

ARTICLE XI. DAMAGE OR DESTRUCTION

SECTION 11.1. RESTORATION.

(a) If the Building of which the Premises are a part is damaged as the result of an event of casualty, then subject to the provisions below, Landlord shall repair that damage as soon as reasonably possible unless: (i) Landlord reasonably determines that the cost of repair would exceed ten percent (10%) of the full replacement cost of the Building ("Replacement Cost") and the damage is not covered by Landlord's fire and extended coverage insurance; or (ii) Landlord reasonably determines that the cost of repair would exceed twenty-five percent (25%) of the Replacement Cost; or (iii) Landlord reasonably determines that the cost of repair would exceed ten percent (10%) of the Replacement Cost and the damage occurs during the final twelve (12) months of the Term, as the Term may have been extended pursuant to Section 3.2. Should Landlord elect not to repair the damage for one of the preceding reasons, Landlord shall so notify Tenant in the "Casualty Notice" (as defined below), and this Lease shall terminate as of the date of delivery of that notice. Landlord agrees that it shall not exercise its right to terminate this Lease in a manner that unreasonably discriminates against Tenant.

(b) As soon as reasonably practicable following the casualty event but not later than sixty (60) days thereafter, Landlord shall notify Tenant in writing ("Casualty Notice") of Landlord's election, if applicable, to terminate this Lease. If this Lease is not so terminated, the Casualty Notice shall set forth the anticipated period for repairing the casualty damage. If the anticipated repair period exceeds the period (the "Maximum Period") of one

hundred eighty (180) days (or sixty (60)) days if the casualty occurs during the final year of the Term, as the Term may have been extended), and if the damage is so extensive as to reasonably prevent Tenant's substantial use and enjoyment of the Premises, then Tenant may elect to terminate this Lease by written notice to Landlord within fifteen (15) days following delivery of the Casualty Notice. If the anticipated repair period as set forth in the Casualty Notice was less than the Maximum Period but Landlord determines subsequently that the actual repair period will exceed the Maximum Period, then Landlord shall so notify Tenant and Tenant may, within five (5) business days thereafter, elect to terminate this lease; otherwise, the Maximum Period shall be deemed extended as set forth in Landlord's notice. Should Landlord fail substantially to complete the restoration within the Maximum Period (as the same may be extended as aforesaid), then Tenant may terminate this Lease by notice to Landlord.

(c) From and after the sixth business day following the casualty event, the rental to be paid under this Lease shall be abated in the same proportion that the floor area of the Premises that is rendered unusable by the damage from time to time bears to the total floor area of the Premises.

(d) Notwithstanding the provisions of subsections (a), (b) and (c) of this Section, Tenant shall not be entitled to rental abatement or termination rights if the damage is due to the willful misconduct of Tenant or its employees, subtenants, contractors, or representatives. In addition, the provisions of this Section shall not be deemed to require Landlord to repair any improvements, fixtures and other items that Tenant is obligated to repair or insure pursuant to Article VII, Exhibit D, or any other provision of this Lease; provided, however, that if and to the extent Landlord receives insurance proceeds from Landlord's insurance carrier for damage to interior leasehold improvements, as reasonably determined by Landlord after first applying any proceeds to damage in areas other than tenant suites, then Landlord shall, subject to the rights of any mortgagee or ground lessor, make those excess proceeds available for repair of the affected leasehold improvements.

SECTION 11.2. LEASE GOVERNS. Tenant agrees that the provisions of this Lease, including without limitation Section 11.1, shall govern any damage or destruction and shall accordingly supersede any contrary statute or rule of law.

ARTICLE XII. EMINENT DOMAIN

SECTION 12.1. TOTAL OR PARTIAL TAKING. If all or a material portion of the Premises is taken by any lawful authority by exercise of the right of eminent domain, or sold to prevent a taking, either Tenant or Landlord may terminate this Lease effective as of the date possession is required to be surrendered to the authority. In the event title to a portion of the Building or Project, other than the Premises, is taken or sold in lieu of taking, and if Landlord elects to restore the Building in such a way as to alter the Premises materially, either party may terminate this Lease, by written notice to the other party, effective on the date of vesting of title. In the event neither party has elected to terminate this Lease as provided above, then Landlord shall promptly, after receipt of the condemnation award, proceed to restore the Premises to substantially their condition prior to the taking, and a proportionate allowance shall be made to Tenant for the rent corresponding to the time during which, and to the part of the Premises of which, Tenant is deprived on account of the taking and restoration. In the event of a taking, Landlord shall be entitled to the entire amount of the condemnation award without deduction for any estate or interest of Tenant; provided that nothing in this Section shall be deemed to give Landlord any interest in, or prevent Tenant from seeking any award against the taking authority for, the taking of personal property and fixtures belonging to Tenant or for relocation or business interruption expenses recoverable from the taking authority.

SECTION 12.2. TEMPORARY TAKING. No temporary taking of the Premises shall terminate this Lease or give Tenant any right to abatement of rent, and any award specifically attributable to a temporary taking of the Premises shall belong entirely to Tenant. A temporary taking shall be deemed to be a taking of the use or occupancy of the Premises for a period of not to exceed ninety (90) days.

SECTION 12.3. TAKING OF PARKING AREA. In the event there shall be a taking of the parking area such that Landlord can no longer provide sufficient parking to comply with this Lease, Landlord shall use commercially reasonable efforts to substitute reasonably equivalent parking in a location reasonably close to the Building; provided that if Landlord fails to make that substitution within ninety (90) days following the taking and if the taking materially impairs Tenant's use and enjoyment of the Premises, Tenant may, at its option, terminate this Lease by written notice to Landlord. If this Lease is not so terminated by Tenant, there shall be no abatement of rent (other than the parking charges) and this Lease shall continue in effect.

ARTICLE XIII. SUBORDINATION; ESTOPPEL CERTIFICATE

SECTION 13.1. SUBORDINATION. At the option of Landlord or any of its mortgagees/deed of trust beneficiaries, this Lease shall be either superior or subordinate to all ground or underlying leases, mortgages and deeds of trust, if any, which may hereafter affect the Building, and to all renewals, modifications, consolidations, replacements and extensions thereof; provided, that so long as Tenant is not in default under this Lease, this Lease shall not be terminated or Tenant's quiet enjoyment of the Premises disturbed in the event of termination of any such ground or underlying lease, or the foreclosure of any such mortgage or deed of trust, to which this Lease has been subordinated pursuant to this Section. In the event of a termination or foreclosure, Tenant shall become a tenant of and attorn to the successor-in-interest to Landlord upon the same terms and conditions as are contained in this Lease, and shall promptly execute any commercially reasonable instrument reasonably required by Landlord's successor for that purpose. Tenant shall also, within twenty (20) days following written request of Landlord (or the beneficiary under any deed of trust encumbering the Building), execute and deliver all commercially reasonable instruments as may be required from time to time by Landlord or such beneficiary (including without limitation any commercially reasonable subordination, nondisturbance and attornment agreement in the form customarily required by such beneficiary) to subordinate this Lease and the rights of Tenant under this Lease to any ground or underlying lease or to the lien of any mortgage or deed of trust; provided, however, that any such beneficiary may, by written notice to Tenant given at any time, subordinate the lien of its deed of trust to this Lease. It is understood that Tenant may condition its execution of a subordination agreement upon receipt of a commercially reasonable nondisturbance covenant. Tenant shall agree that any purchaser at a foreclosure sale or lender taking title under a deed in lieu of foreclosure shall not be responsible for any act or omission of a prior landlord, shall not be subject to any offsets or defenses Tenant may have against a prior landlord, and shall not be liable for the return of any security deposit not actually recovered by such purchaser or bound by any rent paid in advance of the calendar month in which the transfer of title occurred; provided that the foregoing shall not release the applicable prior landlord from any liability for those obligations. Tenant acknowledges that Landlord's mortgagees and successors-in-interest and all beneficiaries under deeds of trust encumbering the Building are intended third party beneficiaries of this Section.

SECTION 13.2. ESTOPPEL CERTIFICATE. Tenant shall, within twenty (20) days following written notice from Landlord, execute, acknowledge and deliver to Landlord, in any commercially reasonable form that Landlord may reasonably require, a statement in writing in favor of Landlord and/or any prospective purchaser or encumbrancer of the Building (i) certifying that this Lease is unmodified and in full force and effect (or, if modified, stating the nature of the modification and certifying that this Lease, as modified, is in full force and effect) and the dates to which the rental, additional rent and other charges have been paid in advance, if any, and (ii) acknowledging that, to Tenant's actual knowledge, there are no uncured defaults on the part of Landlord, or specifying each default if any are claimed, and (iii) setting forth all further information that Landlord may reasonably require. Tenant's statement may be relied upon by any prospective purchaser or encumbrancer of all or any portion of the Building or Project. In addition to Landlord's other rights and remedies, Tenant's failure to deliver any estoppel statement within the provided time shall be conclusive upon Tenant that (i) this Lease is in full force and effect, without modification except as may be represented by Landlord, (ii) there are no uncured defaults in Landlord's performance, and (iii) not more than one month's rental has been paid in advance. Within twenty (20) days following request by Tenant but not more often than once annually, Landlord shall execute and deliver a corresponding estoppel certificate for the benefit of a purchaser or lender of Tenant.

ARTICLE XIV. DEFAULTS AND REMEDIES

SECTION 14.1. TENANT'S DEFAULTS. In addition to any other event of default set forth in this Lease, the occurrence of any one or more of the following events shall constitute a default by Tenant:

(a) The failure by Tenant to make any payment of rent required to be made by Tenant, as and when due, where the failure continues for a period of five (5) business days after written notice from Landlord to Tenant; provided, however, that any such notice shall be in lieu of, and not in addition to, any notice required under California Code of Civil Procedure Section 1161 and 1161(a) as amended. For purposes of these default and remedies provisions, the term "additional rent" shall be deemed to include all amounts of any type whatsoever other than Basic Rent to be paid by Tenant pursuant to the terms of this Lease.

(b) The discovery by Landlord that any financial statement provided by Tenant, or by any affiliate, successor or guarantor of Tenant, was materially false.

(c) The failure or inability by Tenant to observe or perform any of the covenants or provisions of this Lease to be observed or performed by Tenant, other than as specified in any other subsection of this Section, where the failure continues for a period of thirty (30) days after written notice from Landlord to Tenant; provided, however, that any such notice shall be in lieu of, and not in addition to, any notice required under California Code of Civil Procedure Section 1161 and 1161(a) as amended. However, if the nature of the failure is such that more than thirty (30) days are reasonably required for its cure, then Tenant shall not be deemed to be in default if Tenant commences the cure within thirty (30) days, and thereafter diligently pursues the cure to completion.

(d) (i) The making by Tenant of any general assignment for the benefit of creditors; (ii) the filing by or against Tenant of a petition to have Tenant adjudged a Chapter 7 debtor under the Bankruptcy Code or to have debts discharged or a petition for reorganization or arrangement under any law relating to bankruptcy (unless, in the case of a petition filed against Tenant, the same is dismissed within sixty (60) days); (iii) the appointment of a trustee or receiver to take possession of substantially all of Tenant's assets located at the Premises or of Tenant's interest in this Lease, if possession is not restored to Tenant within thirty (30) days; (iv) the attachment, execution or other judicial seizure of substantially all of Tenant's assets located at the Premises or of Tenant's interest in this Lease, where the seizure is not discharged within thirty (30) days; or (v) Tenant's convening of a meeting of its creditors for the purpose of effecting a moratorium upon or composition of its debts. Landlord shall not be deemed to have knowledge of any event described in this subsection unless notification in writing is received by Landlord, nor shall there be any presumption attributable to Landlord of Tenant's insolvency. In the event that any provision of this subsection is contrary to applicable law, the provision shall be of no force or effect.

SECTION 14.2. LANDLORD'S REMEDIES.

(a) In the event of any default by Tenant, then in addition to any other remedies available to Landlord, Landlord may exercise the following remedies:

(i) Landlord may terminate Tenant's right to possession of the Premises by any lawful means, in which case this Lease shall terminate and Tenant shall immediately surrender possession of the Premises to Landlord. Such termination shall not affect any accrued obligations of Tenant under this Lease. Upon termination, Landlord shall have the right to reenter the Premises and remove all persons and property. Landlord shall also be entitled to recover from Tenant:

(1) The worth at the time of award of the unpaid rent and additional rent which had been earned at the time of termination;

(2) The worth at the time of award of the amount by which the unpaid rent and additional rent which would have been earned after termination until the time of award exceeds the amount of such loss that Tenant proves could have been reasonably avoided;

(3) The worth at the time of award of the amount by which the unpaid rent and additional rent for the balance of the Term after the time of award exceeds the amount of such loss that Tenant proves could be reasonably avoided;

(4) Any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result from Tenant's default, including, but not limited to, the cost of recovering possession of the Premises, commissions and other expenses of reletting, including necessary repair, renovation, improvement and alteration of the Premises for a new tenant, reasonable attorneys' fees, and any other reasonable costs; and

(5) At Landlord's election, all other amounts in addition to or in lieu of the foregoing as may be permitted by law. The term "rent" as used in this Lease shall be deemed to mean the Basic Rent and all other sums required to be paid by Tenant to Landlord pursuant to the terms of this Lease. Any sum, other than Basic Rent, shall be computed on the basis of the average monthly amount accruing during the twenty-four (24) month period immediately prior to default, except that if it becomes necessary to compute such rental before the twenty-four (24) month period has occurred, then the computation shall be on the basis of the average monthly amount during the shorter period. As used in subparagraphs (1) and (2) above, the "worth at the time of award" shall be computed by allowing interest at the rate of ten percent (10%) per annum. As used in subparagraph (3) above, the "worth at the time of award" shall be computed by discounting the amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus one percent (1%).

(ii) Landlord may elect not to terminate Tenant's right to possession of the Premises, in which event Landlord may continue to enforce all of its rights and remedies under this Lease, including the right to collect all rent as it becomes due. Efforts by the Landlord to maintain, preserve or relet the Premises, or the appointment of a receiver to protect the Landlord's interests under this Lease, shall not constitute a termination of the Tenant's right to possession of the Premises. In the event that Landlord elects to avail itself of the remedy provided by this subsection (ii), Landlord shall not unreasonably withhold its consent to an assignment or subletting of the Premises subject to the reasonable standards for Landlord's consent as are contained in this Lease.

(b) The various rights and remedies reserved to Landlord in this Lease or otherwise shall be cumulative and, except as otherwise provided by California law, Landlord may pursue any or all of its rights and remedies at the same time. No delay or omission of either party to exercise any right or remedy shall be construed as a waiver of the right or remedy or of any default by the other party. The acceptance by Landlord of rent shall not be a (i) waiver of any preceding breach or default by Tenant of any provision of this Lease, other than the failure of Tenant to pay the particular rent accepted, regardless of Landlord's knowledge of the preceding breach or default at the time of acceptance of rent, or (ii) a waiver of Landlord's right to exercise any remedy available to Landlord by virtue of the breach or default. The acceptance of any payment from a debtor in possession, a trustee, a receiver or any other person acting on behalf of Tenant or Tenant's estate shall not waive or cure a default under Section 14.1. No payment by Tenant or receipt by Landlord of a lesser amount than the rent required by this Lease shall be deemed to be other than a partial payment on account of the earliest due stipulated rent, nor shall any endorsement or statement on any check or letter be deemed an accord and satisfaction and Landlord shall accept the check or payment without prejudice to Landlord's right to recover the balance of the rent or pursue any other remedy available to it. Tenant hereby waives any right of redemption or relief from forfeiture under California Code of Civil Procedure Section 1174 or 1179, or under any other present or future law, in the event this Lease is terminated by reason of any default by Tenant. No act or thing done by Landlord or Landlord's agents during the Term shall be deemed an acceptance of a surrender of the Premises, and no agreement to accept a surrender shall be valid unless in writing and signed by Landlord. No employee of Landlord or of Landlord's agents shall have any power to accept the keys to the Premises prior to the termination of this Lease, and the delivery of the keys to any employee shall not operate as a termination of the Lease or a surrender of the Premises.

SECTION 14.3. LATE PAYMENTS. Any rent due under this Lease that is not paid to Landlord within five (5) business days after written notice that the same was not paid when due shall bear interest at the rate of ten percent (10%) per annum from the date due until fully paid. The payment of interest shall not cure any default by Tenant under this Lease. In addition, Tenant acknowledges that the late payment by Tenant to Landlord of rent will cause Landlord to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult and impracticable to ascertain. Those costs may include, but are not limited to, administrative, processing and accounting charges, and late charges which may be imposed on Landlord by the terms of any ground lease, mortgage or trust deed covering the Premises. Accordingly, if any rent due from Tenant shall not be received by Landlord or Landlord's designee within five (5) business days after written notice of nonpayment, then Tenant shall pay to Landlord, in addition to the interest provided above, a late charge for each delinquent payment equal to two hundred and fifty dollars ($250.00). Acceptance of a late charge by Landlord shall not constitute a waiver of Tenant's default with respect to the overdue amount, nor shall it prevent Landlord from exercising any of its other rights and remedies.

SECTION 14.4. RIGHT OF LANDLORD TO PERFORM. All covenants and agreements to be performed by Tenant under this Lease shall be performed at Tenant's sole cost and expense and without any abatement of rent or right of set-off except as otherwise set forth in this Lease. If Tenant fails to pay any sum of money, or fails to perform any other act on its part to be performed under this Lease, and the failure continues beyond any applicable grace period set forth in Section 14.1, then in addition to any other available remedies, Landlord may, at its election, make the payment or perform the other act on Tenant's part. Landlord's election to make the payment or perform the act on Tenant's part shall not give rise to any responsibility of Landlord to continue making the same or similar payments or performing the same or similar acts. Tenant shall, promptly upon demand by Landlord, reimburse Landlord for all reasonable sums paid by Landlord and all necessary incidental costs, together with interest at the rate of ten percent (10%) per annum from the date of the payment by Landlord.

SECTION 14.5. DEFAULT BY LANDLORD. Landlord shall not be deemed to be in default in the performance of any obligation under this Lease unless and until it has failed to perform the obligation within thirty (30) days after written notice by Tenant to Landlord specifying in reasonable detail the nature and extent of the failure; provided, however, that if the nature of Landlord's obligation is such that more than thirty (30) days are required for its performance, then Landlord shall not be deemed to be in default if it commences performance within the thirty (30) day period and thereafter diligently pursues the cure to completion.

SECTION 14.6. EXPENSES AND LEGAL FEES. Should either Landlord or Tenant bring any action in connection with this Lease, the prevailing party shall be entitled to recover as a part of the action its reasonable attorneys' fees, and all other costs. The prevailing party for the purpose of this paragraph shall be determined by the trier of the facts.

SECTION 14.7. WAIVER OF JURY TRIAL/RIGHT TO ARBITRATE.

(a) LANDLORD AND TENANT EACH ACKNOWLEDGES THAT IT IS AWARE OF AND HAS HAD THE ADVICE OF COUNSEL OF ITS CHOICE WITH RESPECT TO ITS RIGHT TO TRIAL BY JURY, AND EACH PARTY DOES HEREBY EXPRESSLY AND KNOWINGLY WAIVE AND RELEASE ALL SUCH RIGHTS TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM BROUGHT BY EITHER PARTY HERETO AGAINST THE OTHER (AND/OR AGAINST ITS OFFICERS, DIRECTORS, EMPLOYEES, AGENTS, OR SUBSIDIARY OR AFFILIATED ENTITIES) ON ANY MATTERS WHATSOEVER ARISING OUT OF OR IN ANY WAY CONNECTED WITH THIS LEASE, TENANT'S USE OR OCCUPANCY OF THE PREMISES, AND/OR ANY CLAIM OF INJURY OR DAMAGE.

(b) SHOULD A DISPUTE ARISE BETWEEN THE PARTIES REGARDING ANY MATTER DESCRIBED ABOVE, THEN EXCEPT WITH RESPECT TO ACTIONS FOR UNLAWFUL OR FORCIBLE DETAINER EITHER PARTY MAY CAUSE THE DISPUTE TO BE SUBMITTED TO JAMS/ENDISPUTE ("JAMS") OR ITS SUCCESSOR, IN THE COUNTY IN WHICH THE BUILDING IS SITUATED FOR BINDING ARBITRATION BEFORE A SINGLE ARBITRATOR. HOWEVER, EACH PARTY RESERVES THE RIGHT TO SEEK A PROVISIONAL REMEDY BY JUDICIAL ACTION. NO ARBITRATION ELECTION BY EITHER PARTY PURSUANT TO THIS SUBSECTION SHALL BE EFFECTIVE IF MADE LATER THAN THIRTY (30) DAYS FOLLOWING SERVICE OF A JUDICIAL SUMMONS AND COMPLAINT BY OR UPON SUCH PARTY CONCERNING THE DISPUTE. THE ARBITRATION SHALL BE CONDUCTED IN ACCORDANCE WITH THE RULES OF PRACTICE AND PROCEDURE OF JAMS AND OTHERWISE

PURSUANT TO THE CALIFORNIA ARBITRATION ACT (CODE OF CIVIL PROCEDURE SECTIONS 1280 ET SEQ.). NOTWITHSTANDING THE FOREGOING, THE ARBITRATOR IS SPECIFICALLY DIRECTED TO LIMIT DISCOVERY TO THAT WHICH IS ESSENTIAL TO THE EFFECTIVE PROSECUTION OR DEFENSE OF THE ACTION, AND IN NO EVENT SHALL SUCH DISCOVERY BY EITHER PARTY INCLUDE MORE THAN ONE NON-EXPERT WITNESS DEPOSITION UNLESS BOTH PARTIES OTHERWISE AGREE. THE ARBITRATOR SHALL, TO THE EXTENT APPLICABLE, FOLLOW THE SUBSTANTIVE LAW OF CALIFORNIA AND SHALL RENDER A REASONED WRITTEN DECISION WITHIN TWENTY DAYS FOLLOWING THE HEARING. THE ARBITRATOR SHALL APPORTION THE COSTS OF THE ARBITRATION, TOGETHER WITH THE ATTORNEYS' FEES OF THE PARTIES, IN THE MANNER DEEMED EQUITABLE BY THE ARBITRATOR, IT BEING THE INTENTION OF THE PARTIES THAT THE PREVAILING PARTY ORDINARILY BE ENTITLED TO RECOVER ITS REASONABLE COSTS AND FEES. JUDGMENT UPON ANY AWARD RENDERED BY THE ARBITRATOR MAY BE ENTERED BY ANY COURT HAVING JURISDICTION; PROVIDED THAT SUCH AWARD SHALL BE VACATED IN ACCORDANCE WITH THE CALIFORNIA ARBITRATION ACT SHOULD THE COURT DETERMINE, UPON TIMELY PETITION, THAT THE ARBITRATOR EXCEEDED HIS/HER POWERS BY RENDERING A DECISION INCONSISTENT WITH CALIFORNIA LAW OR THAT OTHER GOOD AND SUFFICIENT CAUSE FOR VACATION EXISTS.

ARTICLE XV. END OF TERM

SECTION 15.1. HOLDING OVER. This Lease shall terminate without further notice upon the expiration of the Term, and any holding over by Tenant after the expiration shall not constitute a renewal or extension of this Lease, or give Tenant any rights under this Lease, except when in writing signed by both parties. If Tenant holds over for any period after the expiration (or earlier termination) of the Term, Landlord may, at its option, treat Tenant as a tenant at sufferance only, commencing on the first (1st) day following the termination of this Lease. However, should Landlord accept the payment of monthly hold-over rent by Tenant, then a month-to-month tenancy shall be deemed effected and neither party shall terminate this Lease without thirty (30) days prior written notice to the other party. Any hold-over by Tenant shall be subject to all of the terms of this Lease, except that the monthly rental shall be one hundred fifty percent (150%) of the total monthly rental for the month immediately preceding the date of termination, subject to Landlord's right to modify same upon thirty (30) days notice to Tenant. If Tenant fails to surrender the Premises upon the expiration of this Lease despite demand to do so by Landlord, Tenant shall indemnify and hold Landlord harmless from all loss or liability, including without limitation, any claims made by any succeeding tenant relating to such failure to surrender, provided that Tenant was notified of the existence of such succeeding tenant. Acceptance by Landlord of rent after the termination shall not constitute a consent to a holdover or result in a renewal of this Lease. The foregoing provisions of this Section are in addition to and do not affect Landlord's right of re-entry or any other rights of Landlord under this Lease or at law.

SECTION 15.2. MERGER ON TERMINATION. The voluntary or other surrender of this Lease by Tenant, or a mutual termination of this Lease, shall terminate any or all existing subleases unless Landlord, at its option, elects in writing to treat the surrender or termination as an assignment to it of any or all subleases affecting the Premises.

SECTION 15.3. SURRENDER OF PREMISES; REMOVAL OF PROPERTY. Upon the Expiration Date or upon any earlier termination of this Lease, Tenant shall quit and surrender possession of the Premises to Landlord in as good order, condition and repair as when received or as hereafter may be improved by Landlord or Tenant, reasonable wear and tear, casualty damage and repairs which are Landlord's obligation excepted, and shall remove or fund to Landlord the cost of removing all wallpapering and voice and/or data transmission cabling installed by or for Tenant, together with all personal property and debris, except for any items that Landlord may by written authorization allow to remain. Tenant shall repair all damage to the Premises resulting from the removal, which repair shall include the patching and filling of holes. If Tenant shall fail to comply with the provisions of this Section, Landlord may, after five (5) business days notice to Tenant (if Landlord has been given Tenant's new address), effect the removal and/or make any repairs, and the reasonable cost to Landlord shall be additional rent payable by Tenant upon demand. If requested by Landlord, Tenant shall execute, acknowledge and deliver to Landlord a commercially reasonable instrument in writing releasing and quitclaiming to Landlord all right, title and interest of Tenant in the Premises.

ARTICLE XVI. PAYMENTS AND NOTICES

All sums payable by Tenant to Landlord shall be paid, without deduction or offset (except as otherwise set forth in this Lease), in lawful money of the United States to Landlord at its address set forth in Item 13 of the Basic Lease Provisions, or at any other place as Landlord may designate in writing. Unless this Lease expressly provides otherwise, as for example in the payment of rent pursuant to Section 4.1, all payments shall be due and payable within five (5) business days after written demand. All payments requiring proration shall be prorated on the basis of the number of days in the pertinent calendar month or year, as applicable. Any notice, election, demand, consent, approval or other communication to be given or other document to be delivered by either party to the other may be delivered to the other party, at the address set forth in Item 13 of the Basic Lease Provisions, by personal service, or by any courier or "overnight" express mailing service, or may be deposited in the United States mail, postage prepaid, certified mail, return receipt requested. Either party may, by written notice to the other, served in the manner provided in this Article, designate a different address. If any notice or other document is sent by mail, it shall be deemed served or delivered upon the date personal delivery is made, or one (1) business day after deposit with a nationally recognized courier service or three (3) business days after mailing or, if sooner, upon actual receipt. The refusal to accept delivery of a notice, or the inability to deliver the notice (whether due to a change of address for which notice was not duly given or other good reason), shall be deemed delivery and receipt of the notice as of the date of attempted delivery. If more than one person or entity is named as Tenant under this Lease, service of any notice upon any one of them shall be deemed as service upon all of them.

ARTICLE XVII. RULES AND REGULATIONS

Tenant agrees to comply with the Rules and Regulations attached as Exhibit E, and any reasonable and nondiscriminatory amendments, modifications and/or additions as may be adopted and published by written notice to tenants (including Tenant) by Landlord for the safety, care, security, good order, or cleanliness of the Premises, Building, Project and/or Common Areas. Landlord shall not be liable to Tenant for any violation of the Rules and Regulations or the breach of any covenant or condition in any lease or any other act or conduct by any other tenant, and the same shall not constitute a constructive eviction hereunder. One or more waivers by Landlord of any breach of the Rules and Regulations by Tenant or by any other tenant(s) shall not be a waiver of any subsequent breach of that rule or any other. Landlord shall not enforce, change or modify the Rules and Regulations in a manner discriminatory to Tenant. Tenant's failure to keep and observe the Rules and Regulations after notice and a reasonable cure period under the circumstances shall constitute a default under this Lease. In the case of any conflict between the Rules and Regulations and this Lease, this Lease shall be controlling.

ARTICLE XVIII. BROKER'S COMMISSION

The parties recognize as the broker(s) who negotiated this Lease the firm(s), if any, whose name(s) is (are) stated in Item 10 of the Basic Lease Provisions, and agree that Landlord shall be responsible for the payment of brokerage commissions to those broker(s) unless otherwise provided in this Lease. Each party warrants that it has had no dealings with any other real estate broker or agent in connection with the negotiation of this Lease, and agrees to indemnify and hold the other party harmless from any cost, expense or liability (including reasonable attorneys' fees) for any compensation, commissions or charges claimed by any other real estate broker or agent employed or claiming to represent or to have been employed by the indemnifying party in connection with the negotiation of this Lease. The foregoing agreement shall survive the termination of this Lease.

ARTICLE XIX. TRANSFER OF LANDLORD'S INTEREST

In the event of any transfer of Landlord's interest in the Premises, the transferor shall be automatically relieved of all obligations on the part of Landlord accruing under this Lease from and after the date of the transfer, provided that Tenant is duly notified of the transfer, the transferor turns over or credits any prepaid rent or Security Deposit to the transferee, and the transferee assumes in writing the obligations of Landlord accruing from and after the date of the transfer. Any funds held by the transferor in which Tenant has an interest shall be turned over, subject to that interest, to the transferee. No holder of a mortgage and/or deed of trust to which this Lease is or may be subordinate shall be responsible in connection with the Security Deposit unless the mortgagee or holder of the deed of trust actually receives the Security Deposit. It is intended that the covenants and obligations contained in this Lease on the part of Landlord shall, subject to the foregoing, be binding on Landlord, its successors and assigns, only during and in respect to their respective successive periods of ownership.

ARTICLE XX. INTERPRETATION

SECTION 20.1. GENDER AND NUMBER. Whenever the context of this Lease requires, the words "Landlord" and "Tenant" shall include the plural as well as the singular, and words used in neuter, masculine or feminine genders shall include the others.

SECTION 20.2. HEADINGS. The captions and headings of the articles and sections of this Lease are for convenience only, are not a part of this Lease and shall have no effect upon its construction or interpretation.

SECTION 20.3. JOINT AND SEVERAL LIABILITY. If more than one person or entity is named as Tenant, the obligations imposed upon each shall be joint and several and the act of or notice from, or notice or refund to, or the signature of, any one or more of them shall be binding on all of them with respect to the tenancy of this Lease, including, but not limited to, any renewal, extension, termination or modification of this Lease. This Section is not intended to apply to the joint and several obligations imposed by an assignment of the Lease.

SECTION 20.4. SUCCESSORS. Subject to Articles IX and XIX, all rights and liabilities given to or imposed upon Landlord and Tenant shall extend to and bind their respective heirs, executors, administrators, successors and assigns. Nothing contained in this Section is intended, or shall be construed, to grant to any person other than Landlord and Tenant and their successors and assigns any rights or remedies under this Lease.

SECTION 20.5. TIME OF ESSENCE. Time is of the essence with respect to the performance of every provision of this Lease in which time of performance is a factor.

SECTION 20.6. CONTROLLING LAW/VENUE. This Lease shall be governed by and interpreted in accordance with the laws of the State of California. Should any litigation be commenced between the parties in connection with this Lease, such action shall be prosecuted in the applicable State Court of California in the county in which the Building is located.

SECTION 20.7. SEVERABILITY. If any term or provision of this Lease, the deletion of which would not adversely affect the receipt of any material benefit by either party or the deletion of which is consented to by the party adversely affected, shall be held invalid or unenforceable to any extent, the remainder of this Lease shall not be affected and each term and provision of this Lease shall be valid and enforceable to the fullest extent permitted by law.

SECTION 20.8. WAIVER. One or more waivers by Landlord or Tenant of any breach of any term, covenant or condition contained in this Lease shall not be a waiver of any subsequent breach of the same or any other term, covenant or condition. Consent to any act by one of the parties shall not be deemed to render unnecessary the obtaining of that party's consent to any subsequent act. No breach of this Lease shall be deemed to have been waived unless the waiver is in a writing signed by the waiving party.

SECTION 20.9. INABILITY TO PERFORM. In the event that either party shall be delayed or hindered in or prevented from the performance of any work or in performing any act required under this Lease by reason of any cause beyond the reasonable control of that party, then the performance of the work or the doing of the act shall be excused for the period of the delay and the time for performance shall be extended for a period equivalent to the period of the delay; provided that the foregoing shall not be deemed to extend the time periods set forth in Article XI of this Lease. The provisions of this Section shall not operate to excuse Tenant from the prompt payment of rent.

SECTION 20.10. ENTIRE AGREEMENT. This Lease and its exhibits and other attachments cover in full each and every agreement of every kind between the parties concerning the Premises, the Building, and the Project, and all preliminary negotiations, oral agreements, understandings and/or practices, except those contained in this Lease, are superseded and of no further effect. Tenant waives its rights to rely on any representations or promises made by Landlord or others which are not contained in this Lease. No verbal agreement or implied covenant shall be held to modify the provisions of this Lease, any statute, law, or custom to the contrary notwithstanding.

SECTION 20.11. QUIET ENJOYMENT. Upon the observance and performance of all the covenants, terms and conditions on Tenant's part to be observed and performed, Tenant shall have the right of quiet enjoyment and use of the Premises for the Term without hindrance or interruption by Landlord or any other person claiming by or through Landlord.

SECTION 20.12. SURVIVAL. All covenants of Landlord or Tenant which reasonably would be intended to survive the expiration or sooner termination of this Lease, including without limitation any warranty or indemnity hereunder, shall so survive and continue to be binding upon and inure to the benefit of the respective parties and their successors and assigns.

ARTICLE XXI. EXECUTION AND RECORDING

SECTION 21.1. COUNTERPARTS. This Lease may be executed in one or more counterparts, each of which shall constitute an original and all of which shall be one and the same agreement.

SECTION 21.2. CORPORATE AND PARTNERSHIP AUTHORITY. If Tenant is a corporation, limited liability company or partnership, each individual executing this Lease on behalf of the entity represents and warrants that he is duly authorized to execute and deliver this Lease and that this Lease is binding upon the corporation, limited liability company or partnership in accordance with its terms. Tenant shall, at Landlord's request, deliver a certified copy of its organizational documents or an appropriate certificate authorizing or evidencing the execution of this Lease.

SECTION 21.3. EXECUTION OF LEASE; NO OPTION OR OFFER. The submission of this Lease to Tenant shall be for examination purposes only, and shall not constitute an offer to or option for Tenant to lease the Premises. Execution of this Lease by Tenant and its return to Landlord shall not be binding upon Landlord, notwithstanding any time interval, until Landlord has in fact executed and delivered this Lease to Tenant, it being intended that this Lease shall only become effective upon execution by Landlord and delivery of a fully executed counterpart to Tenant.

SECTION 21.4. RECORDING. Tenant shall not record this Lease without the prior written consent of Landlord. Tenant, upon the request of Landlord, shall execute and acknowledge a "short form" memorandum of this Lease for recording purposes.

SECTION 21.5. AMENDMENTS. No amendment or mutual termination of this Lease shall be effective unless in writing signed by authorized signatories of Tenant and Landlord, or by their respective successors in interest. No actions, policies, oral or informal arrangements, business dealings or other course of conduct by or between the parties shall be deemed to modify this Lease in any respect.

ARTICLE XXII. MISCELLANEOUS

SECTION 22.1. NONDISCLOSURE OF LEASE TERMS. Tenant acknowledges and agrees that the terms of this Lease are confidential and constitute proprietary information of Landlord. Disclosure of the terms could adversely affect the ability of Landlord to negotiate other leases and impair Landlord's relationship with other tenants. Accordingly, Tenant agrees that it, and its partners, officers, directors, employees and attorneys, shall not intentionally and voluntarily disclose the terms and conditions of this Lease to any other tenant or apparent prospective tenant of the Building or Project, either directly or indirectly, without the prior written consent of Landlord, provided, however, that Tenant may disclose the terms to prospective subtenants or assignees under this Lease, to Tenant's agents, or as required by applicable law.

SECTION 22.2. REPRESENTATIONS BY TENANT. The application, financial statements and tax returns, if any, submitted and certified to by Tenant as an accurate representation of its financial condition have been prepared, certified and submitted to Landlord as an inducement and consideration to Landlord to enter into this Lease. The application and statements are represented and warranted by Tenant to be correct in all material respects and to accurately and fully reflect in all material respects Tenant's true financial condition as of the date of execution of this Lease by Tenant. Tenant shall during the Term promptly furnish Landlord with current annual financial statements accurately reflecting Tenant's financial condition upon written request from Landlord but not more than one (1) time in any calendar year.

SECTION 22.3. CHANGES REQUESTED BY LENDER. If, in connection with obtaining financing for the Building, the lender shall request reasonable modifications in this Lease as a condition to the financing, Tenant will not unreasonably withhold or delay its consent, provided that the modifications do not increase the obligations of Tenant or adversely affect the leasehold interest created by this Lease or Tenant's rights hereunder.

SECTION 22.4. MORTGAGEE PROTECTION. No act or failure to act on the part of Landlord which would otherwise entitle Tenant to be relieved of its obligations hereunder or to terminate this Lease shall result in such a release or termination unless (a) Tenant has given notice by registered or certified mail to any beneficiary of a deed of trust or mortgage covering the Building whose address has been furnished to Tenant and (b) such beneficiary is afforded the same period following notice that Landlord is granted herein to cure the default.

SECTION 22.5. WAIVER OF CONSEQUENTIAL DAMAGES. Notwithstanding anything to the contrary contained in this Lease, nothing in this Lease shall impose any obligation on either party ("Releasee") to be responsible or liable for, and the other party ("Releasor") hereby releases the Releasee from all liability for, consequential damages incurred by the Releasor; provided that the foregoing shall not apply to those consequential damage incurred by Landlord in connection with a holdover of the Premises by Tenant after the expiration or earlier termination of this Lease, subject to the terms of Section 15.1, above.

LANDLORD:	TENANT:
THE IRVINE COMPANY	ACACIA RESEARCH CORPORATION
By /s/ Donald S. McNutt --- Donald S. McNutt Senior Vice President, Leasing, Office Properties	By /s/ Robert L. Harris II --- Printed Name Robert L. Harris II Title President
By /s/ Lydia Kennedy --- Lydia Kennedy Vice President, Asset Management, Office Properties	By /s/ Robert A. Berman --- Printed Name Robert A. Berman Title Sr. VP & Secretary

EXHIBIT A

EXHIBIT B

UTILITIES AND SERVICES

The following standards for utilities and services shall be in effect at the Building. In the case of any conflict between these standards and the Lease, the Lease shall be controlling. Subject to all of the provisions of the Lease, including but not limited to the restrictions contained in Section 6.1, the following shall apply:

1. Landlord shall make available to the Premises during the hours of 8:00 a.m. to 6:00 p.m., Monday through Friday ("Building Hours"), generally recognized national holidays excepted, HVAC services for normal comfort for normal office use in the Premises. Subject to the provisions set forth below, Landlord shall also furnish the Building with elevator service, reasonable amounts of electric current consistent with that utilized for normal office purposes by other tenants of the Building, and water for lavatory purposes. Tenant will not, without the prior written consent of Landlord, increase the amount of electricity, gas or water usually furnished or supplied for use of the Premises as general office space; nor shall Tenant connect any apparatus, machine or device with water pipes or electric current (except through existing electrical outlets in the Premises) for the purpose of using electric current or water. This paragraph shall at all times be subject to applicable governmental regulations.

2. Upon written request from Tenant delivered to Landlord at least 24 hours prior to the period for which service is requested, but during normal business hours, Landlord will provide HVAC services to Tenant at such times when such services are not otherwise available. Tenant agrees to pay Landlord for those after-hour services at rates that Landlord may establish from time to time, provided such rates are generally consistent with those imposed by landlords of comparable high-rise office projects in the Newport Beach area. If Tenant requires electric current in excess of that which Landlord is obligated to furnish under this Exhibit B, Tenant shall first obtain the consent of Landlord, which consent shall not be unreasonably withheld, and Landlord may cause an electric current meter to be installed in the Premises to measure the amount of electric current consumed. The cost of installation, maintenance and repair of the meter shall be paid for by Tenant, and Tenant shall reimburse Landlord promptly upon demand for all electric current consumed for any special power use as shown by the meter. The reimbursement shall be at the rates charged for electrical power by the local public utility furnishing the current.

3. If any lights, machines or equipment (including without limitation electronic data processing machines) are used by Tenant in the Premises which materially affect the temperature otherwise maintained by the air conditioning system, or generate substantially more heat in the Premises than would be generated by the building standard lights and usual fractional horsepower office equipment, Landlord shall have the right at its reasonable election (but upon prior written notice to Tenant) to install or modify any machinery and equipment to the extent Landlord reasonably deems necessary to restore temperature balance. The reasonable cost of installation, and any reasonable additional cost of operation and maintenance, shall be paid by Tenant to Landlord promptly upon demand.

4. Landlord shall furnish water for drinking, personal hygiene and lavatory purposes only. If Tenant requires or uses water for any purposes in addition to ordinary drinking, cleaning and lavatory purposes, Landlord may, in its discretion but upon prior written notice to Tenant, install a water meter to measure Tenant's water consumption. Tenant shall pay Landlord for the reasonable cost of the meter and the cost of its installation, and for consumption throughout the duration of Tenant's occupancy. Tenant shall keep the meter and installed equipment in good working order and repair at Tenant's own cost and expense, in default of which Landlord may cause the meter to be replaced or repaired at Tenant's expense. Tenant agrees to pay for water consumed, as shown on the meter and when bills are rendered, and on Tenant's default in making that payment Landlord may pay the charges on behalf of Tenant. Any costs or expenses or payments made by Landlord for any of the reasons or purposes stated above shall be deemed to be additional rent payable by Tenant to Landlord upon demand.

5. In the event that any utility service to the Premises is separately metered or billed to Tenant, Tenant shall pay all charges for that utility service to the Premises and the cost of furnishing the utility to tenant suites shall be excluded from the Operating Expenses as to which reimbursement from Tenant is required in the Lease. If any utility charges are not paid when due Landlord may pay them, and any amounts paid by Landlord shall immediately become due to Landlord from Tenant as additional rent. If Landlord elects to furnish any utility service to the Premises, Tenant shall purchase its requirements of that utility from Landlord as long as the rates charged by Landlord do not exceed those which Tenant would be required to pay if the utility service were furnished it directly by a public utility.

6. Landlord shall provide janitorial services five days per week, equivalent to that furnished in comparable first class high-rise office buildings in the Newport Beach area, and window washing as reasonably required but in any event at least twice per year; provided, however, that Tenant shall pay for any additional or unusual janitorial services required by reason of any nonstandard improvements in the Premises, including without limitation wall coverings and floor coverings installed by or for Tenant, or by reason of any use of Premises other than exclusively as offices. The cleaning services provided by Landlord shall also exclude refrigerators, eating utensils (plates, drinking containers and silverware), and interior glass partitions.

7. Tenant shall have access to the Building and parking 24 hours per day, 7 days per week, 52 weeks per year; provided that Landlord may install access control systems as it deems advisable for the Building. Such systems may, but

need not, include full or part-time lobby supervision, the use of a sign-in sign-out log, a card identification access system, building parking and access pass system, closing hours procedures, access control stations, fire stairwell exit door alarm system, electronic guard system, mobile paging system, elevator control system or any other access controls. In the event that Landlord elects to provide any or all of those services, Landlord may discontinue providing them at any time with or without notice; provided that Landlord shall continue to utilize a reasonable access control system for the Building. Landlord may impose a reasonable charge that is uniform for the Building for access control cards and/or keys issued to Tenant. Landlord shall have no liability to Tenant for the provision by Landlord of improper access control services, for any breakdown in service, or for the failure by Landlord to provide access control services. Tenant further acknowledges that Landlord's access systems may be temporarily inoperative during building emergency and system repair periods.

EXHIBIT C

PARKING

The following parking regulations shall be in effect at the Building. Landlord reserves the right to adopt reasonable, nondiscriminatory modifications and additions to the regulations by written notice to Tenant. In the case of any conflict between these regulations and the Lease, the Lease shall be controlling.

1. Landlord agrees to maintain, or cause to be maintained, an automobile parking area ("Parking Area") in reasonable proximity to the Building for the benefit and use of the visitors and patrons and, except as otherwise provided, employees of Tenant, and other tenants and occupants of the Building. The Parking Area shall include, whether in a surface parking area or a parking structure, the automobile parking stalls, driveways, entrances, exits, sidewalks and attendant pedestrian passageways and other areas designated for parking. Landlord shall have the right and privilege of determining the nature and extent of the automobile Parking Area, whether it shall be surface, underground or other structure, and of making such changes to the Parking Area from time to time which in its opinion are desirable and for the best interests of all persons using the Parking Area, provided that Landlord does not thereby materially adversely affect Tenant's parking rights hereunder. Landlord shall keep the Parking Area in a neat, clean and orderly condition, and shall repair any damage to its facilities. Landlord shall not be liable for any damage to motor vehicles of visitors or employees, for any loss of property from within those motor vehicles, or for any injury to Tenant, its visitors or employees, unless ultimately determined to be caused by the negligence or willful misconduct of Landlord. Unless otherwise instructed by Landlord, every parker shall park and lock his or her own motor vehicle. Landlord shall also have the right to establish, and from time to time amend, and to enforce against all users of the Parking Area all reasonable nondiscriminatory rules and regulations (including the designation of areas for employee parking) as Landlord may deem necessary and advisable for the proper and efficient operation and maintenance of the Parking Area. Garage managers or attendants are not authorized to make or allow any exceptions to these regulations.

2. Landlord may, if it deems advisable in its sole discretion, charge for parking and may establish for the Parking Area a system or systems of permit parking for Tenant, its employees and its visitors, which may include, but not be limited to, a system of charges against nonvalidated parking, verification of users, a set of regulations governing different parking locations, and an allotment of reserved or nonreserved parking spaces based upon the charges paid and the identity of users. In no event shall Tenant or its employees park in reserved stalls leased to other tenants or in stalls within designated visitor parking zones, nor shall Tenant or its employees utilize more than the number of parking stalls allotted in this Lease to Tenant. It is understood that Landlord shall not have any obligation to cite improperly parked vehicles or otherwise attempt to enforce reserved parking rules during hours when parking attendants are not present at the Parking Area. Tenant shall comply with such system in its use of the Parking Area (and shall endeavor to cause its visitors to comply), provided, however, that the system and rules and regulations shall apply to all persons entitled to the use of the Parking Area, and all charges to Tenant for use of the Parking Area shall be no greater than Landlord's then current scheduled charge for parking.

3. Tenant shall, upon request of Landlord from time to time, furnish Landlord with a list of its employees' names and of Tenant's and its employees' vehicle license numbers. Tenant agrees to acquaint its employees with these regulations, and shall be liable to Landlord for all unpaid parking charges incurred by its employees. Any amount due from Tenant shall be deemed additional rent. Tenant authorizes Landlord to tow away from the Building any vehicle belonging to Tenant or Tenant's employees parked in violation of these provisions, and/or to attach violation stickers or notices to those vehicles. In the event Landlord elects or is required to limit or control parking by tenants, employees, visitors or invitees of the Building, whether by validation of parking tickets, parking meters or any other method of assessment, Tenant agrees to participate in the validation or assessment program under reasonable nondiscriminatory rules and regulations as are established by Landlord and/or any applicable governmental agency.

4. Landlord may establish an identification system for vehicles of Tenant and its employees which may consist of stickers, magnetic parking cards or other identification devices supplied by Landlord. All identification devices shall remain the property of Landlord, shall be displayed as required by Landlord or upon request and may not be mutilated or obliterated in any manner. Those devices shall not be transferable and any such device in the possession of an unauthorized holder shall be void and may be confiscated. Landlord may impose a reasonable and uniform fee for identification devices and a reasonable and uniform replacement charge for devices which are lost or stolen. Each identification device shall be returned to Landlord promptly following the Expiration Date or sooner termination of this Lease. Loss or theft of parking identification devices shall be reported to Landlord or its Parking Area operator immediately and a written report of the loss filed if requested by Landlord or its Parking Area operator.

5. Persons using the Parking Area shall observe all directional signs and arrows and any posted speed limits. Unless otherwise posted, in no event shall the speed limit of 5 miles per hour be exceeded. All vehicles shall be parked entirely within painted stalls, and no vehicles shall be parked in areas which are posted or marked as "no parking" or on or in ramps, driveways and aisles. Only one vehicle may be parked in a parking space. In no event shall Tenant interfere with the use and enjoyment of the Parking Area by other tenants of the Building or their employees or invitees.

6. Parking Areas shall be used only for parking vehicles. Washing, waxing, cleaning or servicing of vehicles, or the parking of any vehicle on an overnight basis, in the Parking Area (other than emergency services) by any parker or his or her agents or employees is prohibited unless otherwise authorized by Landlord. Tenant shall have no right to install any fixtures, equipment or personal property (other than vehicles) in the Parking Area, nor shall Tenant make any alteration to the Parking Area.

7. It is understood that the employees of Tenant and the other tenants of Landlord within the Building and Project shall not be permitted to park their automobiles in the portions of the Parking Area which may from time to time be designated for patrons of the Building and/or Project and that Landlord shall at all times have the right to establish reasonable and nondiscriminatory rules and regulations for employee parking. Landlord shall make available for lease by Tenant the number of vehicle parking spaces set forth in Item 12 of the Basic Lease Provisions, and Tenant shall at all times lease not fewer than six (6) of those allotted stalls. During the initial sixty (60) month Lease Term, the monthly rate for each of the allotted unreserved stalls leased by Tenant shall be Fifty-Five Dollars ($55.00). In addition, Tenant may, by notice to Landlord given not later than two (2) months after the Commencement Date, convert up to six (6) of the allotted unreserved stalls to reserved spaces (the "Converted Stalls"). During the initial sixty (60) month Term, the monthly rate for each Converted Stall leased continuously by Tenant shall be Ninety-Eight Dollars ($98.00). Should Tenant fail timely to lease the full allotment of six (6) Converted Stalls, or should Tenant thereafter relinquish its leasing of any of those reserved stalls, then Tenant may thereafter lease additional reserved stalls (up to the aggregate total of six) subject to their then-current availability and at Landlord's scheduled rate from time to time. Following the initial sixty (60) month Term, all parking shall be at Landlord's scheduled rates from time to time, as shall any parking that may be leased by Tenant in addition to the foregoing. Should any monthly parking charge installment not be paid within five (5) business days following the date due, then a late charge shall be payable by Tenant equal to fifty dollars ($50.00), which late charge shall be separate and in addition to any late charge that may be assessed pursuant to Section 14.3 of the Lease for other than delinquent monthly parking charges. Landlord may authorize persons other than those described above, including occupants of other buildings, to utilize the Parking Area. In the event of the use of the Parking Area by other persons, those persons shall pay for that use in accordance with the terms established above; provided, however, Landlord may allow those persons to use the Parking Area on weekends, holidays, and at other non-office hours without payment.

8. Notwithstanding the foregoing paragraphs 1 through 7, Landlord shall be entitled to pass on to Tenant, pursuant to Article IV of this Lease, its proportionate share of any charges or parking surcharge or transportation management costs levied by any governmental agency. The foregoing parking provisions are further subject to any mandatory governmental regulations which limit parking or otherwise seek to encourage the use of carpools, public transit or other alternative transportation forms or traffic reduction programs. Tenant agrees that it will use its commercially reasonable efforts to cooperate, including registration and attendance, in governmentally mandated programs which may be undertaken to reduce traffic. Tenant acknowledges that as a part of those programs, it may be required to distribute employee transportation information, participate in employee transportation surveys, allow employees to participate in commuter activities, designate a liaison for commuter transportation activities, distribute commuter information to all employees, and otherwise participate in other programs or services initiated under a transportation management program.

9. Should any parking spaces be allotted by Landlord to Tenant, either on a reserved or nonreserved basis, Tenant shall not assign or sublet any of those spaces, either voluntarily or by operation of law, without the prior written consent of Landlord, except in connection with an authorized assignment of this Lease or subletting of the Premises.

EXHIBIT D

TENANT'S INSURANCE

The following standards for Tenant's insurance shall be in effect at the Building. Tenant agrees to obtain and present evidence to Landlord that it has fully complied with the insurance requirements.

1. Tenant shall, at its sole cost and expense, commencing on the date Tenant is given access to the Premises for any purpose and during the entire Term, procure, pay for and keep in full force and effect: (i) commercial general liability insurance with respect to the Premises and the operations of or on behalf of Tenant in, on or about the Premises, including but not limited to personal injury, nonowned automobile, blanket contractual, independent contractors, broad form property damage, fire legal liability, products liability (if a product is sold from the Premises), liquor law liability (if alcoholic beverages are sold, served or consumed within the Premises), and cross liability and severability of interest clauses, which policy(ies) shall be written on an "occurrence" basis and for not less than $2,000,000 combined single limit (with a $50,000 minimum limit on fire legal liability) per occurrence for bodily injury, death, and property damage liability; (ii) workers' compensation insurance coverage as required by law, together with employers' liability insurance coverage; (iii) with respect to improvements, alterations, and the like required or permitted to be made by Tenant under this Lease, builder's all-risk insurance, in amounts reasonably satisfactory to Landlord; (iv) insurance against fire, vandalism, malicious mischief and such other additional perils as may be included in a standard "all risk" form, insuring the improvements, trade fixtures, furnishings, equipment and items of personal property in the Premises, in an amount equal to not less than ninety percent (90%) of their actual replacement cost (with replacement cost endorsement), which policy shall also include loss of income/business interruption/extra expense coverage in an amount not less than nine months loss of income from Tenant's business in the Premises. Notwithstanding the foregoing, Tenant may elect to self-insure the loss of income/business interruption/extra expense coverage with full waiver of subrogation in favor of Landlord. In no event shall the limits of any policy be considered as limiting the liability of Tenant under this Lease.

2. All policies of insurance required to be carried by Tenant pursuant to this Exhibit shall be written by insurance companies authorized to do business in the State of California and with a general policyholder rating of not less than "A" and financial rating of not less than "X" in the most current Best's Insurance Report. Any insurance required of Tenant may be furnished by Tenant under any blanket policy carried by it or under a separate policy. A certificate of insurance, certifying that the policy has been issued, provides the coverage required by this Exhibit and contains the required provisions, together with endorsements reasonably acceptable to Landlord evidencing the waiver of subrogation and additional insured provisions required under Paragraph 3 below, shall be delivered to Landlord prior to the date Tenant is given the right of possession of the Premises. Proper evidence of the renewal of any insurance coverage shall also be delivered to Landlord not less than thirty (30) days prior to the expiration of the coverage.

3. Unless otherwise provided below, each policy evidencing insurance required to be carried by Tenant pursuant to this Exhibit shall contain the following provisions and/or clauses satisfactory to Landlord: (i) with respect to Tenant's commercial general liability insurance, a provision that the policy and the coverage provided shall be primary and that any coverage carried by Landlord shall be excess and noncontributory, together with a provision including Landlord, its management agent and lender as additional insureds; (ii) a waiver by the insurer of any right to subrogation against Landlord, its agents, employees, contractors and representatives which arises or might arise by reason of any payment under the policy or by reason of any act or omission of Landlord, its agents, employees, contractors or representatives; and (iii) a provision that the insurer will not cancel or change the coverage provided by the policy without first giving Landlord thirty (30) days prior written notice.

4. In the event that Tenant fails to procure, maintain and/or pay for, at the times and for the durations specified in this Exhibit, any insurance required by this Exhibit, or fails to carry insurance required by any governmental authority, Landlord may, upon ten (10) days prior written notice to Tenant and Tenant's failure to cure, at its election procure that insurance and pay the premiums, in which event Tenant shall repay Landlord all reasonable sums paid by Landlord, together with interest at ten percent (10%) per annum and any related reasonable costs or expenses incurred by Landlord, within ten (10) days following Landlord's written demand to Tenant.

NOTICE TO TENANT: IN ACCORDANCE WITH THE TERMS OF THIS LEASE, TENANT MUST PROVIDE EVIDENCE OF THE REQUIRED INSURANCE TO LANDLORD'S MANAGEMENT AGENT PRIOR TO BEING AFFORDED ACCESS TO THE PREMISES.

EXHIBIT E

RULES AND REGULATIONS

The following Rules and Regulations shall be in effect at the Building. Landlord reserves the right to adopt reasonable nondiscriminatory modifications and additions at any time. In the case of any conflict between these regulations and the Lease, the Lease shall be controlling.

1. Except with the prior written consent of Landlord, or unless otherwise specifically authorized in this Lease, Tenant shall not sell or permit the retail sale of goods or services in or from the Premises, nor shall Tenant allow the Premises to be utilized for any manufacturing or medical practice.

2. The sidewalks, halls, passages, elevators, stairways, and other common areas shall not be obstructed by Tenant or used by it for storage, for depositing items, or for any purpose other than for ingress to and egress from the Premises. The halls, passages, entrances, elevators, stairways, balconies and roof are not for the use of the general public, and Landlord shall in all cases retain the right to control and prevent access to those areas of all persons whose presence, in the judgment of Landlord, shall be prejudicial to the safety, character, reputation and interests of the Building and its tenants. Should Tenant have access to any balcony or patio area, Tenant shall not place any furniture or other personal property in such area without the prior written approval of Landlord. Nothing contained in this Lease shall be construed to prevent access to persons with whom Tenant normally deals only for the purpose of conducting its business on the Premises (such as clients, customers, office suppliers and equipment vendors and the like) unless those persons are engaged in illegal activities. Neither Tenant nor any employee or contractor of Tenant shall go upon the roof of the Building without the prior written consent of Landlord

3. The sashes, sash doors, windows, glass lights, solar film and/or screen, and any lights or skylights that reflect or admit light into the halls or other places of the Building shall not be covered or obstructed. The toilet rooms, water and wash closets and other water apparatus shall not be used for any purpose other than that for which they were constructed, and no foreign substance of any kind shall be thrown in those facilities, and the expense of any breakage, stoppage or damage resulting from the violation of this rule by Tenant shall be borne by Tenant.

4. No sign, advertisement or notice visible from the exterior of the Premises shall be inscribed, painted or affixed by Tenant on any part of the Building or the Premises without the prior written consent of Landlord. If Landlord shall have given its consent at any time, whether before or after the execution of this Lease, that consent shall in no way operate as a waiver or release of any of the provisions of this Lease, and shall be deemed to relate only to the particular sign, advertisement or notice so consented to by Landlord and shall not be construed as dispensing with the necessity of obtaining the specific written consent of Landlord with respect to any subsequent sign, advertisement or notice. If Landlord, by a notice in writing to Tenant, shall object to any curtain, blind, tinting, shade or screen attached to, or hung in, or used in connection with, any window or door of the Premises, then provided such curtain, blind, tinting, shade or screen is visible from outside the Premises, the use of that curtain, blind, tinting, shade or screen shall be immediately discontinued and removed by Tenant. No awnings shall be permitted on any part of the Premises. No antenna or satellite dish shall be installed by Tenant that is either located or visible from outside the Premises without the prior written agreement of Landlord.

5. Tenant shall not do or permit anything to be done in the Premises, or bring or keep anything in the Premises, which shall in any way increase the rate of fire insurance on the Building, or on the property kept in the Building, or obstruct or interfere with the rights of other tenants, or in any way injure or annoy them, or conflict with the regulations of the Fire Department or the fire laws, or with any insurance policy upon the Building, or any portion of the Building or its contents, or with any rules and ordinances established by the Board of Health or other governmental authority.

6. The installation and location of any unusually heavy equipment in the Premises, including without limitation file storage units, safes and electronic data processing equipment, shall require the prior written approval of Landlord. Landlord may restrict the weight and position of any equipment that may exceed the weight load limits for the structure of the Building, and may further require, at Tenant's expense, the reinforcement of any flooring on which such equipment may be placed and/or an engineering study to be performed to determine whether the equipment may safely be installed in the Building and the necessity of any reinforcement. The moving of large or heavy objects shall occur only between those reasonable hours as may be designated by, and only upon previous written notice to, Landlord, and the persons employed to move those objects in or out of the Building must be reasonably acceptable to Landlord. Without limiting the generality of the foregoing, no freight, furniture or bulky matter of any description shall be received into or moved out of the lobby of the Building or carried in any elevator other than the freight elevator designated by Landlord unless approved in writing by Landlord.

7. Landlord shall clean the Premises as provided in the Lease, and except with the written consent of Landlord, no person or persons other than those reasonably approved by Landlord will be permitted to enter the Building for that purpose. Tenant shall not cause unnecessary labor by reason of Tenant's carelessness and indifference in the preservation of good order and cleanliness. Landlord shall not be responsible to Tenant or its employees for loss or damage to property in connection with the provision of janitorial services by third party contractors, except to the extent due to Landlord's direct negligence or willful misconduct.

8. Tenant shall not sweep or throw, or permit to be swept or thrown, from the Premises any dirt or other substance into any of the corridors or halls or elevators, or out of the doors or windows or stairways of the Building, and Tenant shall not use, keep or permit to be used or kept any foul or noxious gas or substance in the Premises, or interfere in any material way with other tenants or those having business with other tenants, nor shall any animals or birds be kept by Tenant in or about the Building. Smoking or carrying of lighted cigars, cigarettes, pipes or similar products anywhere within the Premises or Building is strictly prohibited, and Landlord may enforce such prohibition pursuant to Landlord's leasehold remedies. Smoking is permitted outside the Building and within the project only in areas designated by Landlord.

9. No cooking shall be done or permitted by Tenant on the Premises, except pursuant to the normal use of a U.L. approved microwave oven and coffee maker for the benefit of Tenant's employees and invitees, nor shall the Premises be used for the storage of merchandise or for lodging.

10. Tenant shall not use or keep in the Building any kerosene, gasoline, or inflammable fluid or any other illuminating material, exclusive of normal office supplies, or use any method of heating other than that supplied by Landlord.

11. If Tenant desires telephone, telegraph, burglar alarm or similar connections, Landlord will direct electricians as to where and how the wires are to be introduced. No boring or cutting for wires or otherwise shall be made without directions from Landlord.

12. Upon the termination of its tenancy, Tenant shall deliver to Landlord all the keys to offices, rooms and toilet rooms and all access cards which shall have been furnished to Tenant or which Tenant shall have had made.

13. Tenant shall not mark, drive nails, screw or drill into the partitions, woodwork or plaster or in any way deface the Premises, except to install normal wall hangings. Tenant shall not affix any floor covering to the floor of the Premises in any manner except by a paste, or other material which may easily be removed with water, the use of cement or other similar adhesive materials being expressly prohibited. The method of affixing any floor covering shall be subject to reasonable approval by Landlord. The expense of repairing any damage resulting from a violation of this rule shall be borne by Tenant.

14. On Saturdays, Sundays and legal holidays, and on other days between the hours of 6:00 p.m. and 8:00 a.m., access to the Building, or to the halls, corridors, elevators or stairways in the Building, or to the Premises, may be refused unless the person seeking access complies with any reasonable and nondiscriminatory access control system that Landlord may establish. Landlord shall in no case be liable for damages for the admission to or exclusion from the Building of any person whom Landlord has the right to exclude under Rules 2 or 18 of this Exhibit. In case of invasion, mob, riot, public excitement, or other commotion, or in the event of any other situation reasonably requiring the evacuation of the Building, Landlord reserves the right at its election and without liability to Tenant to prevent access to the Building by closing the doors or otherwise, for the safety of the tenants and protection of property in the Building.

15. Tenant shall be responsible for protecting the Premises from theft, which includes keeping doors and other means of entry closed and securely locked. Tenant shall use commercially reasonable efforts to cause all water faucets or water apparatus to be shut off before Tenant or Tenant's employees leave the Building so as to prevent waste or damage.

16. Tenant shall not alter any lock or install a new or additional lock or any bolt on any door of the Premises without the prior written consent of Landlord. If Landlord gives its consent, Tenant shall in each case promptly furnish Landlord with a key for any new or altered lock.

17. Tenant shall not install equipment, such as but not limited to electronic tabulating or computer equipment, requiring electrical or air conditioning service in excess of that to be provided by Landlord under the Lease except in accordance with Exhibit B.

18. Landlord shall have full and absolute authority to regulate or prohibit the entrance to the Premises of any vendor, supplier, purveyor, petitioner, proselytizer or other similar person. In the event any such person is a guest or invitee of Tenant, Tenant shall notify Landlord in advance of each desired entry, and Landlord shall authorize the person so designated to enter the Premises, provided that in the reasonable judgment of Landlord, such person will not be involved in general solicitation activities, or the proselytizing, petitioning, or disturbance of other tenants or their customers or invitees. Notwithstanding the foregoing, Landlord may condition such access by a food or beverage vendor upon the vendor's execution of an entry permit agreement which may contain provisions for insurance coverage.

19. Tenant shall, at its expense, be required to utilize the third party contractor designated by Landlord for the Building to provide any telephone wiring services from the minimum point of entry of the telephone cable in the Building to the Premises, provided that such contractor's charges shall be generally competitive with those of other contractors performing like services in other high-rise office projects in the area.

20. Tenant shall, upon request by Landlord, supply Landlord with the names and telephone numbers of personnel designated by Tenant to be contacted on an after-hours basis should circumstances warrant.

21. Landlord may from time to time grant tenants individual and temporary variances from these Rules, provided that any variance does not have a material adverse effect on the use and enjoyment of the Premises by Tenant.

EXHIBIT X

WORK LETTER

DOLLAR ALLOWANCE

[SECOND GENERATION SPACE]

The Tenant Improvement work (herein Tenant Improvements") shall consist of any work required to complete the Premises pursuant to plans and specifications approved by both Landlord and Tenant. All of the Tenant Improvement work shall be performed by Turelk Inc. in accordance with the procedures and requirements set forth below.

I. ARCHITECTURAL AND CONSTRUCTION PROCEDURES

A. Tenant and Landlord shall approve both (i) a detailed space plan for the Premises, prepared by the architect engaged by Landlord for the work described herein, Gensler ("Landlord's Architect"), which includes interior partitions, ceilings, interior finishes, interior office doors, suite entrance, floor coverings, window coverings, lighting, electrical and telephone outlets, plumbing connections, heavy floor loads and other special requirements ("Preliminary Plan"), and (ii) an estimate, prepared by the contractor engaged by Landlord for the work herein ("Landlord's Contractor"), of the cost for which Landlord will complete or cause to be completed the Tenant Improvements ("Preliminary Cost Estimate"). Tenant shall approve or disapprove each of the Preliminary Plan and the Preliminary Cost Estimate by written notice and delivering same to Landlord within ten (10) business days of its receipt by Tenant. If Tenant disapproves any matter, Tenant shall specify in detail the reasons for disapproval and Landlord shall attempt to modify the Preliminary Plan and the Preliminary Cost Estimate to incorporate Tenant's suggested revisions in a mutually satisfactory manner.

B. Before Landlord's Architect commences any work on the Working Drawings and Specifications (as defined below), Tenant shall provide in writing to Landlord or Landlord's Architect all specifications and information reasonably requested by Landlord for the preparation of final construction documents and costing, including without limitation Tenant's final selection of wall and floor finishes, complete specifications and locations (including load and HVAC requirements) of Tenant's equipment, and details of all "Non-Standard Improvements" (as defined below) to be installed in the Premises (collectively, "Programming Information"). Tenant understands that final construction documents for the Tenant Improvements shall be predicated on the Programming Information, and accordingly that such information must be accurate and complete.

C. Within ten (10) business days following Tenant's approval of the Preliminary Plan and Preliminary Cost Estimate and delivery of the complete Programming Information, Landlord's Architect and engineers shall prepare and deliver to the parties working drawings and specifications ("Working Drawings and Specifications"), and Landlord's Contractor shall prepare a final construction cost estimate ("Final Cost Estimate") for the Tenant Improvements in conformity with the Working Drawings and Specifications. Tenant shall have ten (10) business days from the receipt thereof to approve or disapprove the Working Drawings and Specifications and the Final Cost Estimate. Should Tenant disapprove the Working Drawings and Specifications or the Final Cost Estimate, such disapproval shall be accompanied by a detailed list of revisions. Any revision requested by Tenant and accepted by Landlord shall be incorporated by Landlord's Architect into a revised set of Working Drawings and Specifications and Final Cost Estimate, and Tenant shall approve or disapprove same in writing within five (5) business days of receipt.

D. In the event that Tenant requests in writing a revision in the approved Working Drawings and Specifications ("Change"), then provided such Change is acceptable to Landlord in good faith, Landlord shall advise Tenant by written change order as soon as is practical of any increase in the Completion Cost such Change would cause. Tenant shall approve or disapprove such change order in writing within three (3) business days following its receipt from Landlord. Tenant's approval of a Change shall be accompanied by Tenant's payment of any resulting increase in the Completion Cost provided that the "Landlord's Contribution" (as defined below) has been exceeded.

E. It is understood that the Preliminary Plan and the Working Drawings and Specifications, together with any Changes thereto, shall be subject to the prior good faith approval of Landlord. Landlord shall identify any disapproved items within three (3) business days (or two (2) business days in the case of Changes) after receipt of the applicable document. In lieu of disapproving an item, Landlord may approve same on the condition that Tenant pay to Landlord, prior to the start of construction and in addition to all sums otherwise due hereunder, an amount equal to the cost, as reasonably estimated by Landlord, of removing and replacing the item upon the expiration or termination of the Lease. Should Landlord approve work that would necessitate any ancillary Building modification or other expenditure by Landlord, then Landlord shall so notify Tenant at the time of Landlord's approval and except to the extent of any remaining balance of the "Landlord's Contribution" as described below, Tenant shall, in addition to its other obligations herein, promptly fund the cost thereof to Landlord.

F. Landlord shall permit Tenant and its agents to enter the Premises up to ten (10) business days prior to the Commencement Date of the Lease in order that Tenant may perform any work to be performed by Tenant hereunder through its own contractors, subject to Landlord's prior written approval (which shall not be unreasonably withheld), and in a manner and upon terms and conditions and at times satisfactory to Landlord's representative. The foregoing license to enter the Premises prior to the Commencement Date is, however, conditioned upon Tenant's contractors and their subcontractors and employees working in harmony and not interfering with the work being performed by Landlord. If at any time that entry shall cause disharmony or unreasonably interfere with the work being performed by Landlord, this license may be withdrawn by Landlord upon twenty-four (24) hours written notice to Tenant. That license is further conditioned upon the compliance by Tenant's contractors with all requirements reasonably imposed by Landlord on third party contractors and subcontractors, including without limitation the maintenance by Tenant and its contractors and subcontractors of workers' compensation and public liability and property damage insurance in amounts and with companies and on forms reasonably satisfactory to Landlord, with certificates of such insurance being furnished to Landlord prior to proceeding with any such entry. The entry shall be deemed to be under all of the provisions of the Lease except as to the covenants to pay rent. Except to the extent caused by the negligence or willful misconduct of Landlord or Landlord's agents, Landlord shall not be liable in any way for any injury, loss or damage which may occur to any such work being performed by Tenant, the same being solely at Tenant's risk. In no event shall the failure of Tenant's contractors to complete any work in the Premises extend the Commencement Date of this Lease.

G. Tenant hereby designates Chip Harris, Telephone No. (626) 396-8300, as its representative and agent for the purpose of receiving notices, approving submittals and issuing requests for Changes, and Landlord shall be entitled to rely upon authorizations and directives of such person(s) as if given directly by Tenant. Tenant may amend the designation of its construction representative(s) at any time upon delivery of written notice to Landlord. Conversely, Landlord hereby designates Stewart Morse of lnsignia/ESG, Telephone No. (949) 784-0844, as its construction representative, subject to modification by written notice to Tenant.

H. It is understood that the Tenant Improvements shall be completed during Tenant's occupancy of the Premises. However, Landlord agrees that it shall use diligent efforts to recarpet and paint those areas of the Premises not affected by the demising walls by February 15, 2002 (which date is based on the assumption that Tenant shall execute and deliver this Lease to Landlord by January 22, 2002). In this regard, Tenant agrees to assume any risk of injury, loss or damage which may result, except for the gross negligence or willful misconduct of Landlord or its contractors or agents. Tenant further agrees that it shall be solely responsible for relocating its office equipment and furniture in the Premises in order for Landlord to complete the work in the Premises and that no rental abatement shall result while the Tenant Improvements are completed in the Premises.

Landlord agrees that it shall use diligent efforts to complete the Tenant Improvements as expeditiously as is reasonably possible once such work has commenced and to minimize interference with Tenant's access to and use of the Premises; provided that overtime charges shall be included in the Completion Cost. Landlord further agrees that it shall cooperate in good faith with Tenant to provide notice to Tenant of the schedule of the various components of the work.

II. COST OF TENANT IMPROVEMENTS

A. Landlord shall complete, or cause to be completed, the Tenant Improvements, at the construction cost shown in the approved Final Cost Estimate (subject to the provisions of this Work Letter), in accordance with final Working Drawings and Specifications approved by both Landlord and Tenant. Landlord shall pay towards the final construction costs ("Completion Cost") as incurred a maximum of Seventy-Eight Thousand Three Hundred Sixty-Four Dollars ($78,364.00) ("Landlord's Contribution"), and Tenant shall be fully responsible for the remainder ("Tenant's Contribution"); provided, however, that Landlord shall, in addition to the Landlord's Contribution, be responsible for the cost of the following items as reflected in the January 14, 2002 cost estimate (the "Landlord Work"), which cost items shall not be included in the Tenant's Contribution: (i) the installation and finishing of the demising walls of the Premises, (ii) the life safety upgrade work, and (iii) the retrofit of the existing ceilings to comport with applicable codes. If the actual cost of completion of the Tenant Improvements is less than the maximum amount provided for the Landlord's Contribution, such savings shall inure to the benefit of Landlord and Tenant shall not be entitled to any credit or payment.

B. The Completion Cost shall include all direct costs of Landlord in completing the Tenant Improvements (exclusive of the cost of the Landlord Work as provided above), including but not limited to the following: (i) payments made to architects, engineers, contractors, subcontractors and other third party consultants in the performance of the work, (ii) permit fees and other sums paid to governmental agencies, and (iii) costs of all materials incorporated into the work or used in connection with the work. The Completion Cost shall also include an administrative/supervision fee to be paid to Landlord in the amount of five percent (5%) of all hard construction costs.

C. Prior to start of construction of the Tenant Improvements, Tenant shall pay to Landlord the amount of the Tenant's Contribution set forth in the approved Final Cost Estimate. In addition, if the actual Completion Cost of the Tenant Improvements is greater than the Final Cost Estimate because of modifications or extras not reflected on the approved Working Drawings and Specifications which are requested by Tenant, and further provided that the sum of (i) the cost of such modifications and extras and (ii) the Final Cost Estimate, exceeds the Landlord's Contribution, then Tenant shall pay to Landlord, within ten (10) days following submission of an invoice therefor, all such additional costs, including any additional architectural fee, so long as the additional cost of any changes had been approved by Tenant. If Tenant defaults in the payment of any sums due under this Work Letter, Landlord shall (in addition to all other remedies) have the same rights as in the case of Tenant's failure to pay rent under the Lease.

EXHIBIT 18.1

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
1880 Century Park East
Century City
West Los Angeles CA 90067
Telephone (310) 201-1700

March 31, 2002

Board of Directors
Acacia Research Corporation, Inc.
500 Newport Center Drive, Suite 700
Newport Beach, California 92660

Dear Directors:

We are providing this letter to you for inclusion as an exhibit to your Form 10-K filing pursuant to Item 601 of Regulation S-K.

We have audited the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2001 and issued our report thereon dated February 25, 2002. Note 2 to the financial statements describes a change in accounting principle from charging subsidiary stock compensation cost to income with the offsetting amount recorded as a liability account to recording the offsetting amount to minority interests. It should be understood that the preferability of one acceptable method of accounting over another for the balance sheet classification of accrued subsidiary stock compensation has not been addressed in any authoritative accounting literature, and in expressing our concurrence below we have relied on management's determination that this change in accounting principle is preferable. Based on our reading of management's stated reasons and justification for this change in accounting principle in the Form 10-K, and our discussions with management as to their judgment about the relevant business planning factors relating to the change, we concur with management that such change represents, in the Company's circumstances, the adoption of a preferable accounting principle in conformity with Accounting Principles Board Opinion No. 20.

Very truly yours,

/s/ PricewaterhouseCoopers LLP

EXHIBIT 21

SUBSIDIARIES OF THE REGISTRANT

The following is a listing of the significant subsidiaries of Acacia Research Corporation:

	Jurisdiction of Incorporation
CombiMatrix Corporation	Delaware
Soundview Technologies Incorporated	Delaware
Acacia Media Technologies Corporation	Delaware
Advanced Material Sciences, Inc.	Delaware

EXHIBIT 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 333-33857, 333-34773, 333-39415, 333-43222, 333-45397, 333-52941, 333-55086, 333-58401, 333-95373) and in the Registration Statements on Form S-8 (Nos. 333-22197, 333-42024, 333-62389) of Acacia Research Corporation of our report dated February 25, 2002, except as to note 14, which is as of March 27, 2002, relating to the financial statements, which appears in this Form 10-K.

/s/ PRICEWATERHOUSECOOPERS LLP

Los Angeles, California
March 27, 2002