Internet Patents Corp
Form 10-K
February 26, 2014
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC. 20549

FORM 10-K

(Mark One)

Annual report pursuant to Section 13 or 15(d) of the Securities ExchangeAct of 1934 for the fiscal year ended December 31, 2013
or
Transition report pursuant to Section 13 or 15(d) of the Securities ExchangeAct of 1934 for the transition period from to

Commission File Number 0-26083

INTERNET PATENTS CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE	**94-3220749**
(State or other jurisdiction of	(I.R.S. Employer
Incorporation or organization)	Identification No.)

101 Parkshore Drive. Suite 100

Folsom, California 95630

(Address of principal executive offices and zip code)

(916) 932-2860

(Registrant's telephone number, including area code)

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

Title of each class	**Name of Exchange on which registered**
Common Stock	Nasdaq Capital Market

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

None

(Title of Class)

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES NO

Indicate by check mark whether the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. YES NO

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

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

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

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

Large Accelerated Filer	Accelerated Filer
Non-Accelerated Filer	Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act).
YES NO

The aggregate market value of registrant's voting and non-voting common equity held by non-affiliates of registrant, based upon the closing sale price of the common stock as of the last business day of registrant's most recently completed second fiscal quarter (June 30, 2013), as reported on the Nasdaq Capital Market, was approximately $13,578,000. Registrant is a smaller reporting company as defined in Regulation S-K. Shares of common stock held by each officer, director and holder of 5% or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

Outstanding shares of registrant's common stock, $0.001 par value, as of February 14, 2014: 7,751,952

INTERNET PATENTS CORPORATION

Annual Report on Form 10-K

For the Fiscal Year Ended December 31, 2013

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Unless otherwise indicated or required by the context, as used in this Annual Report on Form 10-K, the terms "we," "our" and "us" refer to Internet Patents Corporation ("IPC") and its subsidiaries that are consolidated in conformity with accounting principles generally accepted in the United States.

Certain information contained in this Annual Report on Form 10-K, including "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7, should be considered "forward-looking statements" as defined by Section 21E of the Private Securities Litigation Reform Act of 1995. All statements in this report other than historical information may be deemed forward-looking statements. These statements present (without limitation) the expectations, beliefs, plans and objectives of management and future financial performance and assumptions underlying, or judgments concerning, the matters discussed in the statements. The words "believe," "estimate," "anticipate," "project" and "expect," and similar expressions, are intended to identify forward-looking statements. Forward-looking statements involve certain risks, estimates, assumptions and uncertainties, including: our ability to generate revenues from our new business model; our ability to effectively and efficiently manage patent infringement litigation we initiate; our ability to achieve profitability; and legislative, regulatory and judicial developments affecting patent licensing and enforcement. A variety of factors could cause actual results or outcomes to differ materially from those expected and expressed in our forward-looking statements. Some important risk factors that could cause actual results or outcomes to differ from those expressed in the forward-looking statements are described in Item 1A "Risk Factors" of this report.

The list of factors that may affect future performance and the accuracy of forward-looking statements described in Item 1A " Risk Factors" of this report is illustrative, but by no means exhaustive. Additional risk factors may be described from time to time in our future filings with the U.S. Securities and Exchange Commission. Accordingly, all forward-looking statements should be evaluated with the understanding of their inherent uncertainty. All such risk factors are difficult to predict, contain material uncertainties that may affect actual results and may be beyond our control.

Item 1. Business.

General Overview of Business

Internet Patents Corporation ("IPC") was originally incorporated in California in February 1995 and re-incorporated in Delaware in October 1996, and is headquartered outside Sacramento, California. IPC's headquarters mailing address is 101 Parkshore Drive, Suite 100, Folsom, CA 95630, and the telephone number at that location is (916) 932-2860. The principal IPC website is *www.internetpatentscorporation.net.*

From its inception through December 21, 2011, IPC operated an online insurance marketplace that electronically matched consumers and providers of automobile, property, health, term life, and small business insurance. IPC discontinued this business in connection with the sale of substantially all of its assets (the “Disposition”) to Bankrate, Inc. (“Bankrate”) in a transaction that closed on December 21, 2011 (“Disposition Date”).On the Disposition Date and in connection with the Disposition, the Company changed its name from InsWeb Corporation (“InsWeb”) to Internet Patents Corporation.

Patent Licensing Business

Since the Disposition Date, IPC’s business consists solely of plans to license and otherwise enforce its portfolio of seven e-commerce patents (“Patent Licensing Business”). From its original incorporation, IPC was among the earliest companies operating exclusively online, and we employed a significant staff of software and systems engineers to develop technology leveraging the power of the internet. Although our principal business focus at that time was online insurance lead generation, the problems that our technology experts faced were common to many e-commerce companies. IPC's innovative solutions to these problems are now covered by patents that we believe apply to many e-commerce activities, including:

- personalized product recommendations to web site visitors;
- retargeting or remarketing to web site visitors;
- online registration and application processes and forms;
- maintaining consistent look and feel of web pages in multiple languages; and
- generating quick or even real time product rate requests.

Under U.S. law, a patent owner is entitled to exclude others from making, selling or using the patented invention for the life of the patent, generally twenty years from its filing date, with some possible term extensions by statute. The patent holder may grant one or more licenses to the patented invention, typically allowing the licensee to make, use and/or sell the patented invention in return for a royalty paid to the patent owner. A patent owner also may sue and recover damages from unlicensed parties for past patent infringement and sometimes future royalties. Although we intend to attempt to negotiate a reasonable royalty for licenses to the patented technologies, we may not be able to reach a negotiated settlement with the accused infringer. In that case we expect to vigorously litigate our infringement claims. To date, none of the Company's patents has generated direct revenues or been subject to a final adjudication of its validity.

Many patent infringement lawsuits end in a negotiated settlement before trial; lawsuits that do not settle, however, often last more than two years from the date the complaint is filed until a trial is concluded. The timeframe is influenced by a number of factors, including the jurisdiction in which the case is filed. In addition, patent litigation is costly. A 2011 survey from the American Intellectual Property Law Association (AIPLA) estimates that the average (mean) cost of a patent lawsuit is $2.8 million where the amount in controversy is between $1 and $25 million. The costs consist of outside and local counsel, associates, paralegal services, travel and living expenses, fees and costs for court reporters, copies, couriers, exhibit preparation, analytical testing, expert witnesses, translators, surveys, jury advisors, and similar expenses. Although IPC expects to conduct its patent litigation as efficiently as possible, we expect the cost of litigating a case to trial to be substantial.

Our future revenues, if any, are expected to consist solely of the royalties from licensing the patents and damages for past infringement. In addition to general and administrative expenses, including salaries and benefits, rent and utilities, we expect to incur expenses associated with patent infringement litigation.

Patent Portfolio

The process for obtaining a United States patent begins with the filing of an application that describes the invention and sets out the scope of the technology claimed in the invention. The patent application process is generally described at the United States Patent and Trademark Office website: www.uspto.gov.

IPC’s patent portfolio consists of 7 patents, each of which is described below, and 2 patent applications. All of our patents are considered utility patents. All of the issued patents are wholly-owned by IPC, except for U.S. Patent No 7,389,246 in which IPC transferred a one-half ownership interest to an unrelated company on a royalty free basis.

Event Log (U.S. Patent No. 6,898,597) filed November 9, 1999; patent term expires in November 2019

This patent describes an event logging system that monitors for the occurrence of predefined web site usage events having some business significance, records the occurrence of those events, and also records the events' associated context information. The system includes a software event identification routine, executing within web server software or other web-related application software, that monitors for the occurrence of an event and gathers a desired set of related context information. A database interface, usable by one or more distinct web servers or applications, is used to insert the information into an event database. The event database can later be processed to add, modify, or delete event data, as well as prepare the data for integration into other databases or the preparation of reports.

System and method for optimizing and processing electronic pages in multiple languages (U.S. Patent No. 7,107, 325) filed November15, 1999; patent term expires in November 2019

This patent describes a web page processing system that processes a user's requests using predefined, flexible templates and corresponding logic. Main processing handles non-departmental specific functions, such as security and data decoding and encoding.

Data decoding and encoding includes converting data to a universal character coding representation. The system also includes software for determining the character set used by a user for converting universal character coded data into a particular language code. The system includes a secure private protocol for advantageously securing the system in addition to traditional router based firewall technology. Links to departmental level functions through template files are provided for department specific functions and processing of department related information received by the system. In addition, web page customization is provided by specialized links to external web sites containing logos and other indicia to be included on returned web pages.

System and method for optimizing and processing electronic pages in multiple languages (U.S. Patent No. 8,595,355) filed September 12, 2006; patent term expires in November 2019

This patent was issued from a continuation application filed with respect to U.S Patent No. 7,107,325. It adds certain claims to the parent patent regarding web page processing system that processes a user's requests using predefined, flexible templates and corresponding logic.

Data decoding and encoding includes converting data to a universal character coding representation. The system also includes software for determining the character set used by a user for converting universal character coded data into a particular language code. The system includes a secure private protocol for advantageously securing the system in addition to traditional router based firewall technology. Links to departmental level functions through template files are provided for department specific functions and processing of department related information received by the system. In addition, web page customization is provided by specialized links to external web sites containing logos and other indicia to be included on returned web pages.

Dynamic tabs for a graphical user interface (U.S. Patent No. 7,707,505) filed March 23, 2000; patent term expires March 2025

This patent describes a dynamic, intelligent user interface for an on-line, virtual application that uses user input to customize the subsequent display of application data and queries presented to the user/applicant. The invention includes a facility for intelligent editing, data state presentation, and error flagging and correction. In one embodiment of the invention, the intelligent user interface is implemented as part of a series of dynamically generated web pages (a form set) presented to a user of an e-commerce Internet web site. This presentation is in the form of a collection of tabbed panes of data, the selected pane being displayed on a web page, wherein each pane contains one or more pages of data and queries. This organization and presentation of the virtual application provides re-entrant editing; error trapping, flagging, and correction; and easy navigation from sub-pane to sub-pane (page to page) within each pane and from pane to pane using the tabs and conventional browser Back and Forward button functionality.

Insurance rating calculation software component architecture (U.S. Patent No. 7,389,246) filed February 15, 2000; patent term expires in March 2024

This patent describes a product rate calculation system that utilizes a software component architecture providing a flexible insurance rating calculation system that can easily be scaled, modified, expanded, and implemented in various computer system operating environments, while still providing quick, and even real-time responsiveness to product rate requests. The product rate calculation system includes a product application or component object that requests a product rate from a product rate calculation software component, and can supply some or all of the rating information needed for the calculation. One or more support software components and one or more protocol stacks facilitate component communication.

Insurance Agent Contact System (U.S. Patent No. 7,640,176) filed May 20, 1999; patent term expires in November 2022

This patent describes an online insurance information system that is comprised of an insurance quoting system, an agent contact system, agent systems, and customer systems. The agent contact system comprises a customer interfacing subsystem, a create contact engine, an agent interfacing subsystem, and a process contact engine. The customer interfacing subsystem is coupled to the quoting system and to a given one of the customer systems for receiving an online indication by a given customer of a desire to pursue a policy with a given agent. The given customer comprises a given contact. The create contact engine identifies the given agent system and saves in a database local to the agent contact system a personal insurance profile and contact information corresponding to the given customer. The agent interfacing subsystem coupled to the given agent system receives an online indication by the given agent of a desire to view, print, or modify the contact information. The process contact engine contacts the given agent system with information regarding the given contact, and accesses and modifies the contact information in accordance with online indications made by the agent.

System and Method for Flexible Insurance Rating Calculation (U.S. Patent No. 8,103,526) filed March 7, 2000; patent term expires in October 2022

This patent describes a product rate calculation system that operates as a rating server (e.g., a process executing on a server computer system, or a process executing on the same computer system as a client process but serving information to the client process) and provides a flexible insurance rating calculation system that can easily be modified and expanded, while still providing quick, and even real-time responsiveness to product rate requests. The product rate calculation system includes an interface to a product information database and a cache for storing product rate information for efficient reuse. The product rate information includes product rate expressions that are parsed and evaluated by an expression evaluation routine to determine a product rate. As part of the evaluation process, additional product rate information (such as look-up table data and numerical constants) as well as consumer information can be used.

All of the patents issued to IPC describe technologies that were invented by employees of IPC and assigned to IPC. In addition, IPC continues to pursue continuation patent applications related to some of the issued patents. We do not engage in research and development activities and we therefore do not expect to develop further patentable inventions; however, we may acquire additional patents from third parties for strategic purposes.

Litigation

During 2012, IPC filed patent infringement lawsuits against six companies. Two of the companies are alleged to infringe the Event Log patent; four companies are alleged to infringe the Dynamic Tabs patent. Each of the lawsuits was filed in the U.S. District Court for the Northern District of California and trial dates for the lawsuits have not been set. The following table summarizes the status of current litigation:

In our suit against TellApart and eBags alleging infringement of the Event Log patent, the U.S. Patent and Trademark Office ("USPTO") granted the defendants' petition for ex parte re-examination of the Event Log patent. The US District Court granted defendants' motion to stay the litigation for the duration of the USPTO's re-examination. IPC is responding to Office Actions issued by the USPTO in the reexamination.

The four separate Dynamic Tabs cases we filed against the Active Network, Inc, the General Automobile Insurance Services, Inc, Quinstreet Inc. and Tree.com were reassigned to a single judge. On September 24, 2013, the court ruled that the Dynamic Tabs patent was invalid for lack of patent-eligible subject matter and granted a motion to dismiss filed by The General. The court later dismissed the cases against the other three defendants on the same basis. On October 23, 2013, IPC appealed the dismissal to the U.S. Court of Appeals for the Federal Circuit and filed its opening brief on January 29, 2014.

Employees

As of December 31, 2013, IPC had 3 full-time employees. IPC has never had a work stoppage, and none of its employees are currently represented under collective bargaining agreements. IPC believes that its future success will depend in part on the continued service of its senior management. IPC has no long-term employment agreements with any of its personnel.

Competition

We believe that each patent owned by IPC represents a unique technology that many third parties have or will find valuable to their operations. We therefore do not believe that we face direct competition. In offering a license or in asserting a claim of infringement, however, we may cause the third parties to alter their business operations rather than pay us an on-going royalty.

Available Information

For further discussion concerning our business, see the information included in “Item 7 Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Item 8 Financial Statements and Supplementary Data” of this report.

You may obtain free copies of our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K and amendments to those reports, as well as other Corporate Governance Materials on our website at http://ir.internetpatentscorporation.net, or by contacting our corporate office by calling (916) 932-2860, or by sending an e-mail message to info@internetpatentscorporation.net.

We electronically file our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K with the Securities and Exchange Commission (SEC) pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. Any materials we file with the SEC are accessible to the public at the SEC’s Public Reference Room at 450 Fifth Street, NW, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The public may also utilize the SEC’s Internet website, which contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The address of the SEC website is http://www.sec.gov.

Item 1A.Risk Factors.

Risks Related to Our Business

Our Patent Licensing Business revenues will be unpredictable.

We received no revenues in 2013 or 2012 from the Patent Licensing Business. Our historical financial and operating information therefore is of limited value in evaluating the Patent Licensing Business and our future prospects. Moreover, we expect that revenues from the Patent Licensing Business, if any, will be unpredictable because of the significant uncertainty associated with patent licensing and patent litigation. We will continue to incur salary, legal and other expenses of operating our business, including the expenses of a public company. Our results of operations and financial condition will be materially adversely affected if we fail to effectively manage our overhead costs associated with the Patent Licensing Business, we become involved in expensive litigation or settlement proceedings which may or may not have successful outcomes, or if the Patent Licensing Business does not perform to our expectations. In addition, the members of our management team do not have significant experience operating a business focused on licensing and otherwise enforcing patented technologies, and therefore may require time to adequately familiarize themselves with the nature of our new Patent Licensing Business.

If the validity of any of our patents is challenged, our business may be harmed.

The success of our Patent Licensing Business model will depend on our ability to generate royalty fees from licensing our technology or damages from patent infringement lawsuits. However, it is possible that one or more of our patents might be declared invalid if challenged by an entity against whom we seek to enforce our patent rights. These challenges to the validity of our patents may be made by defendants in the course of litigation or by requesting a re-examination before the U.S. Patent and Trademark Office. For example, one of our patents was recently declared invalid by a federal district court, requiring us to appeal to the federal circuit, and litigation involving another patent has been stayed pending reexamination proceedings before the USPTO. Even if our patents are upheld as valid, we may incur significant legal and expert fees and costs in the litigation and/or re-examination process, which may take several years to conclude and delay our ability to generate revenues.

Third parties may choose to alter their business operations rather than pay us an on-going royalty.

We believe that our patents represent unique technologies that a wide range of third parties have or will find valuable to their operations. Nevertheless, we expect that patent infringement litigation will be required to recover damages for past infringement of our patent rights and to incentivize the defendant to accept a license and pay us royalties for its future use of the technology. Defendants may, however, choose to modify their operations to work around the claims covered by our patents. In that case, they would not pay us royalties for future use and our business may be harmed.

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

We believe that the more prevalent patent enforcement actions become, the more difficult it will be for us to license our patents to other entities on a voluntary basis. As a result, we may need to increase the number of our patent enforcement actions to cause infringing companies to license our patents or pay damages for past infringement. This may result in increased expenses, delay the recovery of damages and harm our business.

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

If new legislation, regulations or rules are implemented either by Congress, the U.S. Patent and Trademark Office, or the courts that impact the patent application process, the patent enforcement process or the rights of patent holders, these changes could negatively affect our expenses and revenue growth. For example, new rules regarding the burden of proof in patent enforcement actions could significantly increase the cost of litigation for infringement, and new standards or limitations on liability for patent infringement could negatively impact our revenue derived from such actions.

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

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

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

If we are required to litigate to enforce our patented technologies, our patent enforcement actions will be almost exclusively prosecuted in federal court. Federal trial courts that hear patent enforcement actions also hear criminal cases, which will take priority over our actions. As a result, it is difficult to predict the length of time it will take to complete an enforcement action. Moreover, we believe there is a trend in increasing numbers of civil lawsuits and criminal proceedings before federal judges, and as a result, we believe that the risk of delays in our patent enforcement actions may have an adverse effect on our business in the future unless this trend changes.

Adverse changes in general economic conditions could adversely affect our operating results

The severe economic downturn in the United States in 2007- 2008 resulted in a record level of corporate insolvencies. We are unable to estimate the probability that companies that we assert our patents against will have sufficient resources to fully compensate us for their past infringement or future use of our patented technologies. The inability to recover full value from a significant number of entities would harm our future revenues.

Risks Related to Our Common Stock

Our future stock price may fluctuate widely.

The trading price of our common stock has been volatile and may be significantly affected by factors including actual or anticipated operating results, announcements regarding licensing or litigation developments, disputes concerning the validity of one or more of our patents, and our limited trading volume. These fluctuations may harm our stock price. Any negative change in the public's perception of the prospects of the Patent Licensing Business could also depress our stock price regardless of our results.

Our common stock may be delisted from the Nasdaq Capital Market if we fail to satisfy the continued listing standards of that market.

If we are unable to satisfy the continued listing standards of the Nasdaq Capital Market, our common stock may be delisted from that market. In order to continue to be listed on the Nasdaq Capital Market, we must meet all of the following requirements as set forth in Nasdaq Listing Rule 5550(a):

- minimum bid price of at least $1.00 per share for 30 consecutive trading days;

- at least 300 total stockholders (including both beneficial holders and holders of record, but excluding any holder who is directly or indirectly an executive officer, director, or the beneficial holder of more than 10% of the total shares outstanding);

- at least 500,000 publicly held shares with a market value of at least $1 million (excluding any shares held directly or indirectly by officers, directors or any person who is the beneficial owner of more than 10% of the total shares outstanding of the Company); and

- at least two registered and active market makers, one of which may be a market maker entering a stabilizing bid.

We must also meet at least one of the three standards in Nasdaq Listing Rule 5550(b) as follows:

- stockholders' equity of at least $2.5 million;

- market value of listed securities of at least $35 million; or

- net income from continuing operations of $500,000 in the most recently completed fiscal year or in two of the three most recently completed fiscal years.

If we do not satisfy those standards and we are unsuccessful in taking corrective action to comply with the listing requirements, we may be delisted from the Nasdaq Capital Market. If our common stock were to be delisted from the Nasdaq Capital Market, trading of our common stock most likely would be conducted in the over-the-counter market on an electronic bulletin board established for unlisted securities such as the Pink Sheets or the OTC Bulletin Board. Such trading could substantially reduce the market liquidity of our common stock. As a result, an investor would find it more difficult to dispose of, or obtain accurate quotations for the price of our common stock.

Our success is dependent in part upon the continued services of our senior management with whom we do not have employment agreements.

Our success is dependent in part upon the continued services of the members of our senior management team. IPC has no long-term employment agreements with any of its employees that provide for their continued employment with us, and the loss of the services of any employee could have a material adverse effect on our business, financial condition and results of operations.

Our adoption of a shareholder rights plan may reduce the volume of trading in our stock because it limits the ability of persons or entities from acquiring a significant percentage of our outstanding stock.

On November 30, 2012, IPC stockholders approved an amendment to the Company's Certificate of Incorporation creating a stockholder rights plan designed to preserve the value of certain tax assets associated with net operating loss carryforwards under Section 382 of the Internal Revenue Code of 1986. Stockholders also approved a Section 382 Rights Agreement adopted by our Board of Directors in November 2011. The stockholder rights plan and rights agreement are intended to act as deterrents to any person or group, together with its affiliates and associates, being or becoming the beneficial owner of 4.9% or more of the Company's common stock. The inability of some stockholders to acquire a significant position could substantially reduce the market liquidity of our common stock, making it more difficult for a stockholder to dispose of, or obtain accurate quotations for the price of, our common stock.

Delaware law and our charter documents contain provisions that could discourage or prevent a potential takeover, even if such a transaction would be beneficial to our stockholders.

Provisions of Delaware law and our certificate of incorporation and bylaws could make it more difficult for an entity to acquire us by means of a tender offer, a proxy contest, or otherwise, and the removal of incumbent officers and directors.

Item 1B.Unresolved Staff Comments.

Not applicable.

Item 2. Properties.

IPC has a non-cancelable 24 month lease through May 15, 2015 for approximately 800 square feet of office space in Folsom, California, which is currently IPC's corporate headquarters.

IPC has a non-cancelable 5-year full-service lease for approximately 16,000 square feet of office space in a building that housed IPC's headquarters until May 2013. The facility is located in Rancho Cordova, California. The lease includes negotiated annual increases in the monthly rental payments. IPC has two consecutive options to extend the term for five years, each at the then prevailing market rent. On April 16, 2013, IPC subleased this space for the remainder of IPC's term, which expires in February 2017. The monthly sublease rent is less than IPC's rent obligation to the landlord. As of December 31, 2013, IPC is expected to receive $431,000 from the sub-lessee for the remainder of IPC's lease.

IPC also leases approximately 10,000 square feet of office space in San Francisco, California under a lease expiring in September 2014. This facility is currently fully subleased to two tenants. As of December 31, 2013, IPC is expected to receive $77,000 from the two sub-lessees during the remainder of IPC's lease.

Item 3. Legal Proceedings.

On June 29, 2012, Internet Patents Corporation filed a lawsuit against eBags, Inc, and TellApart, Inc. alleging infringement of U.S. Patent No. 6,898,587 entitled "Event Log Information in Client-Server Computer System." The lawsuit was filed in the U.S. District Court for the Northern District of California. In 2013, the U.S. Patent and Trademark Office ("USPTO") granted the defendants' petition for ex parte re-examination of the Event Log patent. The court subsequently granted defendants' motion to stay the litigation for the duration of the USPTO's re-examination. IPC is responding to Office Actions issued by the USPTO in the reexamination.

On September 27, 2012, Internet Patents Corporation(“IPC”) filed two patent infringement lawsuits in the U.S. District Court for the Northern District of California against: 1) The General Automobile Insurance Services, Inc, d/b/a The General, Permanent General Assurance Corporation and Permanent General Assurance Corporation of Ohio; and 2) The Active Network. The lawsuits allege infringement of U.S. Patent No. 7,707,505 entitled “Dynamic Tabs for a Graphical User Interface” (“the Dynamic Tabs Patent”). On December 21, 2012, Internet Patents Corporation (“IPC”) filed patent infringement lawsuits in the U.S. District Court for the Northern District of California against Tree.com and Quinstreet, Inc.. The lawsuits also allege infringement of the Dynamic Tabs Patent. In 2013, the four separate Dynamic Tabs cases were reassigned to a single judge. On September 24, 2013, the court ruled that the Dynamic Tabs patent was invalid for lack of patent-eligible subject matter and granted a motion to dismiss filed by The General. The court later dismissed the cases against the other three defendants on the same basis. On October 23, 2013, IPC appealed the dismissal to the U.S. Court of Appeals for the Federal Circuit, and filed its opening brief on January 29, 2014.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

IPC's common stock is quoted on the Nasdaq Capital Market under the symbol "PTNT." As of December 31, 2013, there were approximately 1,400 stockholders of record. Certain shares are held by brokers and other institutions on behalf of stockholders, and we are unable to determine the total number of stockholders represented by these record holders. The following table sets forth, for the quarters indicated, the high and low sales price per share of IPC's common stock as reported on the Nasdaq Capital Market:

	Price Range	
	Quarter Ended	
	High	**Low**
2013		
December 31, 2013	$3.50	$3.03
September 30, 2013	$3.72	$3.15
June 30, 2013	$3.75	$3.45
March 31, 2013	$4.00	$3.66
2012		
December 31, 2012	$4.10	$3.36
September 30, 2012	$3.75	$3.42
June 30, 2012	$4.04	$3.18
March 31, 2012	$8.62	$3.26

Historically, IPC has not paid any cash dividends on its capital stock. In conjunction with the Disposition, our Board of Directors declared a special distribution of $5 per share which was paid to our stockholders on March 9, 2012. In light of the Disposition, the special distribution, and the Company's new Patent Licensing Business, the Company's historical stock prices are of limited value in evaluating the Company's future prospects or stock prices.

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Item 6. Selected Financial Data.

Not applicable.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operation.

Overview

From its inception through December 21, 2011 (the “Disposition Date”), IPC operated an online insurance marketplace that electronically matched consumers and providers of automobile, property, health, term life, and small business insurance. IPC discontinued this business in connection with the sale of substantially all of its assets related to its lead generation business to Bankrate, Inc. in a transaction that closed on December 21, 2011 (the “Disposition”). As a result of the Disposition, we no longer conduct the insurance lead generation business, and have agreed not to reenter that business for a period of ten years.

Since the Disposition Date, IPC’s business consists solely of plans to license or otherwise enforce its portfolio of e-commerce and online insurance distribution patents (“Patent Licensing Business”).

Under U.S. law, a patent owner is entitled to exclude others from making, selling or using the patented invention for the life of the patent, generally twenty years from its filing date, with some possible term extensions by statute. The patent holder may grant one or more licenses to the patented invention, typically allowing the licensee to make, use and/or sell the patented invention in return for a royalty paid to the patent owner. A patent owner also may sue and recover damages from unlicensed parties for past patent infringement and sometimes future royalties. Although we intend to attempt to negotiate a reasonable royalty for licenses to the patented technologies, we may not be able to reach a negotiated settlement with the accused infringer. In that case we expect to vigorously litigate our infringement claims. To date, none of the Company's patents has generated direct revenues or been subject to a final adjudication of its validity.

Our future revenues are expected to consist of the royalties from licensing the patents and damages for past infringement. We expect significant resistance from entities that we believe infringe one or more of our patents, at least until the validity of the patents can be established. Patent infringement litigation can be expensive and often takes several years to reach the trial stage, and the appeals process could result in further delays in receiving royalties or damage awards. For these reasons, IPC cannot estimate what revenues, if any, it will receive in 2014. In addition to general and administrative expenses, including salaries and benefits, rent and utilities, we will incur expenses associated with patent infringement litigation and being a public company. We cannot predict if we will generate revenues or be profitable in 2014.

During 2012 IPC filed patent infringement lawsuits against six companies. Two of the companies are alleged to infringe the Event Log patent; four companies are alleged to infringe the Dynamic Tabs patent. Each of the lawsuits was filed in the U.S. District Court for the Northern District of California and trial dates for the lawsuits have not been set.

Results of Operations

Fiscal 2013 compared to Fiscal 2012

The following table sets forth selected statement of operations data with the respective percentage change from the prior year (dollars in thousands):

	2013	2012	% Change from the Prior Year 2013	% Change from the Prior Year 2012
Revenues	$-	$-	N/A	*
Operating expenses:				
General and administrative	2,688	2,959	-9 %	-7 %
Total operating expenses	2,688	2,959	-9 %	-10 %
Loss from operations	(2,688)	(2,959)	-9 %	-10 %
Other income	25	172	-85 %	1,047 %
Net loss before income taxes	(2,663)	(2,787)	-4 %	-15 %
Income tax benefit	-	(61)	N/A	N/A
Net loss	(2,663)	(2,726)	-2 %	-17 %
Comprehensive loss	$(2,663)	$(2,726)	-2 %	1,977 %

General and Administrative. General and administrative expenses consist primarily of payroll and related expenses, including employee benefits, facility costs, accounting and legal services and insurance for our general management, administrative and accounting personnel, as well as other general corporate expenses. General and administrative expenses decreased 9% to $2.7 million in 2013 from $3.0 million in 2012. The decrease was primarily due to a reduction in administrative headcount, reduced rent, accounting services, consulting services, insurance, board of director fees and business taxes. The decrease was offset by a $606,000 one-time charge to record an accrual for lease obligations related to the sublease of the Rancho Cordova facility and also due to increases in litigation and general legal expenses and share-based compensation expense for the options granted on July 1, 2013 to the non-employee directors. We expect general and administrative expenses for fiscal year 2014 to be approximately $2.0 million.

Other Income. Other income was $25,000 in 2013, compared to $172,000, in 2012. In 2012, other income included a one-time payment of $99,000 received by IPC following the settlement of commercial litigation and a supplemental payment from Bankrate of $67,000 related to the collection of outstanding accounts receivable subsequent to the Disposition Date. In addition, $25,000 and $6,000 was recognized in 2013 and 2012, respectively, for interest earned on IPC's investment portfolio of cash, cash equivalents and short-term investments. IPC expects that other income will consist entirely of returns received from its investment portfolio in the near future, which will be negligible given the current interest rate environment in the United States.

Income Taxes. IPC recognized federal and state income tax benefits of $61,000 in 2012, due to the difference between the income tax expense recognized for the year ended December 31, 2011 and the actual tax liability incurred when the income tax returns were filed during the quarter ended September 30, 2012.

Off-Balance Sheet Arrangements. The Company had no off-balance sheet arrangements in 2013 or 2012.

Critical Accounting Policies

IPC's discussion and analysis of its financial condition and results of operations are based on IPC's consolidated financial statements which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires IPC to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. IPC bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. IPC believes the following critical accounting policies affect its more significant judgments and estimates used in the preparation of its consolidated financial statements.

Revenue Recognition. The Company has not yet determined the methodology it will use for recognizing revenues from royalties for licensing its patents or from damages for past infringement, as no agreements or judgments related to these types of revenue streams had been entered into or paid, respectively, as of December 31, 2013.

Share-Based Compensation. IPC accounts for share-based compensation in accordance with ASC 718 "*Compensation – Stock Compensation.*" Under the provisions of ASC 718, share-based compensation cost is generally estimated at the grant date based on the award's fair value as calculated by the Black-Scholes-Merton (BSM) option-pricing model. The BSM option-pricing model requires various highly judgmental assumptions including expected option life, volatility, and forfeiture rates. If any of the assumptions used in the BSM option-pricing model change significantly, share-based compensation expense may differ materially in the future from that recorded in the current period. Generally, compensation cost is recognized over the requisite service period. However, to the extent performance conditions affect the vesting of an award, compensation cost will be recognized only if the performance condition is satisfied. Compensation cost will not be recognized, and any previously recognized compensation cost will be reversed, if the performance condition is not satisfied.

Income Taxes. Under the asset and liability method prescribed under ASC 740, "*Income Taxes*", IPC recognizes deferred tax assets and liabilities for the future tax consequences attributable to differences between financial statement carrying amounts of assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realized or settled.

For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. At December 31, 2013 and December 31, 2012, IPC had unrecognized tax benefits of approximately $0.3 million and $0.3 million, respectively ($0.1 million of which, if recognized, would affect IPC's effective tax rate). IPC does not believe there will be any material changes in its unrecognized tax positions over the next twelve months.

For tax return purposes, IPC had net operating loss carry forwards at December 31, 2013 of approximately $142.9 million and $64.4 million for federal income tax and state income tax purposes, respectively. Included in these amounts are unrealized federal and state net operating loss deductions resulting from stock option exercises of approximately $10.2 million each. The benefit of these unrealized stock option-related deductions has not been included in deferred tax assets and will be recognized as a credit to additional paid-in capital when realized. Federal and state net operating loss carry forwards begin expiring in 2019 and 2014, respectively.

The carrying value of our deferred tax assets, which was approximately $49.5 million at December 31, 2013, is dependent upon our ability to generate sufficient future taxable income. We have established a full valuation allowance against our net deferred tax assets to reflect the uncertainty of realizing the deferred tax benefits, given historical losses. A valuation allowance is required when it is more likely than not that all or a portion of a deferred tax asset will not be realized. This assessment requires a review and consideration of all available positive and negative evidence, including our past and future performance, the market environment in which we operate, the utilization of tax attributes in the past, and the length of carryforward periods and evaluation of potential tax planning strategies. We expect to continue to maintain a full valuation allowance until an appropriate level of profitability is sustained or we are able to develop tax strategies that would enable us to conclude that it is more likely than not that a portion of our deferred tax assets would be realizable.

Liquidity and Capital Resources

Summarized cash flow information is as follows (in thousands):

Cash Flows provided by (used in)	Years Ended December 31, 2013	2012
Operating activities	$(2,203)	$(4,485)
Investing activities	1,248	(1,288)
Financing activities	—	(33,485)
Decrease in cash and cash equivalents	$(955)	$(39,258)

At December 31, 2013, IPC's principal source of liquidity was $30.1 million in cash and cash equivalents and $0.2 million in short-term investments. IPC adheres to an investment policy with minimal market or settlement risk with its current holdings. There are no restrictions or limitations regarding access to the $30.1 million in cash and cash equivalents and $0.2 million in short-term investments. Since inception, IPC has financed its operations primarily through the sale of preferred and common stock and, until the Disposition, cash flow from operations.

In 2013, net cash used in operating activities was $2.2 million, primarily consisting of our net loss adjusted for share-based compensation, depreciation and amortization of property and equipment, impairment of long-lived assets and accrual for lease obligations of $2.0 million and cash used of $0.3 million, primarily due to a decrease in accrued expenses and accounts payable. This was partially offset by increases in other liabilities and a decrease in prepaid expenses of $0.1 million.

In 2012, net cash used by operations was $4.5 million. This primarily consisted of IPC's net loss of $2.7 million and cash used of $4.0 million, primarily due to payment of accounts payable, income taxes, accrued expenses and other liabilities. This was partially offset by a decrease in prepaid expenses and other current assets of $1.2 million and other assets of $1.0 million.

In 2013, net cash provided by investing activities was $1.2 million representing $1.5 million relating to the purchases of short-term investments and $1.0 million relating to purchases of restricted cash equivalents, offset by redemptions of short-term investments of $2.7 million and redemptions of restricted short-term investments of $1.0 million.

In 2012, net cash used in investing activities was $1.3 million. This consisted of cash used by continuing operations in 2012 of $1.3 million, representing $2.2 million relating to the purchases of short-term investments and $1.0 million relating to purchases of restricted short-term investments, offset by redemptions of short-term investments of $1.9 million.

Net cash used in financing activities in 2012 was $33.5 million. This consisted of an aggregate $38.6 million cash distribution paid to shareholders on March 9, 2012, offset by proceeds from employee stock option exercises of $5.1 million.

IPC currently anticipates that its cash and cash equivalents will be sufficient to meet its anticipated cash needs to fund operations and capital expenditures for at least the next 12 months. Although IPC does not anticipate the need for additional financing to meet its operating needs or to expand its business, IPC cannot be certain that additional financing will be available when required, on favorable terms or at all. If IPC is not successful in raising additional capital as required, its business could be materially harmed. If additional funds were raised through the issuance of equity securities, the percentage ownership of IPC's then-current stockholders would be reduced.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

Item 8. Financial Statements and Supplementary Data.

The Report of Independent Registered Public Accounting Firm, Consolidated Financial Statements and Notes to Consolidated Financial Statements follow below on pages F-1 to F-18.

INTERNET PATENTS CORPORATION

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Internet Patents Corporation

We have audited the accompanying consolidated balance sheets of Internet Patents Corporation as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive loss, stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Internet Patents Corporation at December 31, 2013 and 2012, and the consolidated results of its operations and its cash flows for each of the two years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Sacramento, California

February 25, 2014

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INTERNET PATENTS CORPORATION

CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except per share amounts)

	December 31, 2013	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	$30,113	$31,068
Short-term investments	249	1,497
Restricted cash equivalents and short-term investments	1,000	1,000
Prepaid expenses and other current assets	144	169
Total current assets	31,506	33,734
Property and equipment, net	1	32
Other assets	29	27
Total assets	$31,536	$33,793
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$220	$234
Accrued expenses	253	346
Total current liabilities	473	580
Accrued lease obligation, non-current	444	-
Income tax liability	101	101
Other liabilities	45	-
Total liabilities	1,063	681
Stockholders' equity:		
Convertible preferred stock, $0.001 par value. Authorized: 5,000 shares; no shares issued or outstanding at 2013 and 2012	-	-
Common stock, $0.001 par value. Authorized: 25,000 shares; 11,033 shares issued and 7,752 shares outstanding at 2013 and 2012	11	11
Paid-in capital	221,750	221,726
Treasury stock, 3,281 shares at 2013 and 2012	(6,788)	(6,788)
Accumulated deficit	(184,500)	(181,837)
Total stockholders' equity	30,473	33,112
Total liabilities and stockholders' equity	$31,536	$33,793

See accompanying notes.

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INTERNET PATENTS CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(Amounts in thousands, except per share amounts)

	Years Ended December 31,	
	2013	**2012**
Revenues	$ -	$ -
Operating expenses:		
General and administrative	2,688	2,959
Total operating expenses	2,688	2,959
Loss from operations	(2,688)	(2,959)
Other income	25	172
Net loss before income taxes	(2,663)	(2,787)
	(2,663)	(2,787)
Income tax benefit	-	(61)
Net loss	(2,663)	(2,726)
Net loss per share:		
Basic and diluted	$ (0.34)	$ (0.36)
Shares used in computing loss per share:		
Basic and diluted	7,752	7,659

See accompanying notes.

INTERNET PATENTS CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(Amounts in thousands)

	Years ended December 31,	
	2013	**2012**
Net loss	$(2,663)	$(2,726)
Comprehensive loss	$(2,663)	$(2,726)

See accompanying notes.