

Internet Patents Corp
Form 10-K
March 13, 2013

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 Exchange Act of 1934 for the fiscal year ended December 31, 2012
- or
- Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from to

Commission File Number 0-26083

INTERNET PATENTS CORPORATION
(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
Incorporation or organization)

94-3220749
(I.R.S. Employer
Identification No.)

10850 Gold Center Dr. Suite 250B
Rancho Cordova, California 95670
(Address of principal executive offices and zip code)

(916) 853-1529
(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

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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 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, 2012), as reported on the Nasdaq Capital Market, was approximately \$16,478,000. 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 March 4, 2013: 7,751,952

INTERNET PATENTS CORPORATION

Annual Report on Form 10-K
For the Fiscal Year Ended December 31, 2012

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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 and regulatory 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 10850 Gold Center Dr., Suite 250B, Rancho Cordova, CA 95670, and the telephone number at that location is (916) 853-1529. 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.

IPC retained certain assets generally not related to the insurance lead generation business including cash, short-term investments and its patent portfolio. On the Disposition Date, Bankrate acquired certain assets and assumed certain liabilities associated with the operation of the lead generation business. Bankrate did not assume certain liabilities related to real property leases, obligations related to IPC’s employees that arose prior to the Disposition Date, or obligations for employees that remained employed by IPC after the Disposition Date. IPC is also generally responsible for the tax obligations or entitled to tax refunds associated with the Disposition and for the taxes related to income or loss generated by the insurance lead generation business prior to the Disposition Date.

Patent Licensing Business

Since the Disposition Date, IPC's business consists solely of plans to license and otherwise enforce its portfolio of six 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 have generated direct and specific 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 6 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 event logging system 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 November 15, 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.

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

This dynamic, intelligent user interface for an on-line, virtual application 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 product rate calculation system 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 online insurance information system 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 product rate calculation system 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.

Employees

As of December 31, 2012, 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

Each patent owned by IPC represents a unique technology that we believe 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) 853-1529, 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 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.

The lead generation business sold to Bankrate in December 2011 represented substantially all of our total revenues in 2011. We received no revenues in 2012 from the Patent Licensing Business. Since we have not historically generated revenues from the Patent Licensing Business, our historical financial and operating information is of limited value in evaluating the Patent Licensing Business and our future prospects. Moreover, our 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 any of our patents are declared invalid, 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. Even if our patents are upheld as valid, we may have difficulty identifying entities that will voluntarily enter into a license for our patented technology. In this case, we may be required to litigate to recover damages for infringement, and we will incur significant legal and expert fees and costs, and the litigation may take several years to conclude.

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. In many cases 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 voluntarily license our patents to other entities. 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.

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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.

Depressed general economic conditions or further adverse changes in general economic conditions could adversely affect our operating results

The severe economic downturn in the United States has resulted in a record level of corporate insolvencies. We are unable to estimate the probability that companies that we assert our patents against 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, and on our ability to attract and retain key management personnel. IPC has no long-term employment agreements with any of its personnel that provide for their continued employment with us. In addition, Hussein A. Enan currently serves as our Chairman of the Board and Chief Executive Officer. The Company maintains a life insurance policy on Mr. Enan that names the Company as the beneficiary, but the loss of the services of Mr. Enan or one or more other members of management could have a material adverse effect on our business, financial condition and results of operations.

Our recent 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's corporate headquarters and its operations are located in an approximately 16,000 square foot facility in the Sacramento, California area, which IPC occupies under a lease expiring in February 2017. The original lease term is for 70 months. IPC has two consecutive options to extend the term for five years at the prevailing market rent. A portion of the premises currently is subleased to Bankrate, Inc. under a month to month lease that will terminate on March 31, 2013. 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 for the remainder of the lease.

In connection with this lease and other lease obligations, IPC must make assumptions regarding the estimated future sublease income relative to this facility, and the inherent risks associated with its sub-lessees. These estimates and assumptions are affected by area-specific conditions such as new commercial development, market occupancy rates and future market prices. The corporate headquarters' lease includes a negotiated annual increase in the monthly rental payments.

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 US District Court for the Northern District of California.

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.”

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 allege infringement of U.S. Patent No. 7,707,505 entitled “Dynamic Tabs for a Graphical User Interface.”

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, 2012, there were approximately 2,500 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 | |
|--------------------|-------------|---------|
| | High | Low |
| 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 |
| 2011 | | |
| December 31, 2011 | \$ 8.79 | \$ 5.90 |
| September 30, 2011 | \$ 8.20 | \$ 5.43 |
| June 30, 2011 | \$ 8.20 | \$ 6.65 |
| March 31, 2011 | \$ 8.79 | \$ 6.61 |

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.

For the year ended December 31, 2012, the Company acquired 25,000 shares of the Company's common stock (at an aggregate cost of \$198,750) from a Board Member for partial payment of the exercise price of 42,416 stock options.

For the year ended December 31, 2011, the Company acquired 31,955 shares of the Company's common stock (at an aggregate cost of \$255,000) from the Chairman of the Board and the Chief Executive Officer in partial payment of the exercise price of 41,667 stock options.

Issuer Purchases of Equity Securities

| Period | (a) Total Number of Shares (or units) Purchased | (b) Average Price Paid per Share (or Unit) | (c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or | (d) Maximum Number (or Approximates Dollar Value) of Shares (or Units) |
|--------|---|--|--|--|
|--------|---|--|--|--|

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| | | | Programs | that May Yet Be Purchased Under the Plans or Programs |
|-----------------|--------|--------|----------|--|
| January 6, 2012 | 25,000 | \$7.95 | 0 | 0 |
| April 12, 2011 | 31,955 | \$7.98 | 0 | 0 |

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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"). IPC retained certain assets generally not related to its insurance lead generation business which included cash, short-term investments and its patent portfolio. On the Disposition Date, Bankrate acquired certain assets and assumed certain liabilities associated with the operation of the lead generation business. Bankrate did not assume certain liabilities related to real property leases, obligations related to IPC's employees that arose prior to the Disposition Date, or obligations for employees that remained employed by IPC after the Disposition Date. IPC is also generally responsible for the tax obligations or entitled to tax refunds associated with the Disposition and for the taxes related to the income or loss generated by the insurance lead generation prior to the Disposition Date.

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. In connection with the Disposition, we have also licensed rights under our patent portfolio to Bankrate on a perpetual, royalty-free, non-exclusive basis.

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. The patent holder may grant one or more licenses to the patented invention, typically allowing the licensee to use the patented invention in return for a royalty paid to the patent owner. A patent owner also may sue and recover damages for past, unlicensed use of the technology. Although we intend to attempt to negotiate a reasonable royalty for future use of the patented technologies, we expect that litigation will be required in most instances because the defendant contests either the validity of our patent or denies infringement. None of the Company's patents have generated revenues in the past 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 2013. 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 2013.

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 sale of assets to Bankrate, Inc. resulted in a one-time cash payment to IPC of \$65 million in December 2011. IPC did not retain an interest in the insurance lead generation business and will not receive future compensation relating to the insurance lead generation business or the assets sold. IPC is not required to indemnify Bankrate for any matter relating to the asset sale, other than indemnification for tax liabilities that pertain to periods prior to the asset sale. Pursuant to the terms of the Asset Purchase Agreement, Bankrate was required to pay us amounts it receives from customers for the insurance lead generation business we conducted prior to the Disposition Date. The amount that IPC received from Bankrate in 2012 for these accounts receivable was approximately \$67,000 and no more payments are expected.

Results of Operations

Reclassifications

As a result of the Disposition, all of the Company's revenues and certain significant costs related to the Company's insurance lead generation business are accumulated into discontinued operations for the year ended December 31, 2011. There were no such insurance lead generation revenues or costs incurred during the year ended December 31, 2012.

Fiscal 2012 compared to Fiscal 2011

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

| | 2012 | 2011 | % Change from the Prior Year 2012 | % Change from the Prior Year 2011 |
|--|------------|-----------|--|--|
| Total revenues | \$ - | \$ - | N/A | * |
| Operating expenses: | | | | |
| Technology | - | 97 | N/A | 5% |
| General and administrative | 2,959 | 3,184 | -7% | 13% |
| Total operating expenses | 2,959 | 3,281 | -10% | 13% |
| Loss from operations | (2,959) | (3,281) | -10% | 13% |
| Other income (expense), net | 172 | 15 | 1,047% | -40% |
| Loss from continuing operations before income taxes | (2,787) | (3,266) | -15% | 13% |
| Income tax (benefit) expense | (61) | - | N/A | N/A |
| Loss from continuing operations, net of tax | (2,726) | (3,266) | -17% | 13% |
| Discontinued operations, net of tax: | | | | |
| Income from discontinued operations | - | 719 | N/A | -83% |
| Gain on sale of discontinued operations | - | 53,716 | N/A | N/A |
| Total discontinued operations | - | 54,435 | N/A | 1,204% |
| Net income (loss) | \$ (2,726) | \$ 51,169 | -1,977% | 3,851% |
| Comprehensive income (loss) | \$ (2,726) | \$ 51,169 | -1,977% | 3,851% |

*- Items included in discontinued operations.

Technology. Technology expenses consisted primarily of payroll and related expenses, including employee benefits. Technology expenses were \$0 in 2012 and \$97,000 in 2011. There were no technology expenses in 2012 because full-time technology personnel are no longer necessary for IPC's business operations.

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 7% to \$3.0 million in 2012 from \$3.2 million in 2011. The decrease was primarily due to a reduction in administrative headcount and decreases in rent expense and accounting services. This was partially offset by an accrual for lease obligations of \$95,000, relating to a formerly occupied facility in San Francisco, California and increases in retention bonuses, severance and legal fees.

Off-Balance Sheet Arrangements. The Company had no off-balance sheet arrangements in 2012 or 2011.

Other Income and Expense, Net. Other income and expense, net was \$172,000, in 2012, compared to \$15,000 in 2011. 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, a nominal amount was recognized in 2012 and 2011 for interest earned on IPC's investment portfolio of cash, cash equivalents and short-term investments. IPC expects that Other Income and Expense, Net 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. Internet Patents Corporation 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. IPC recognized \$524,000 and \$287,000 in federal and state tax expenses from discontinued operations, respectively, for the year ended December 31, 2011.

Income from Discontinued Operations. As a result of the Disposition, all of the Company's revenues and direct marketing costs, and sales and marketing costs, and a substantial portion of the technology and general and administrative expenses, interest expenses and income taxes have been included in discontinued operations for the year ended December 31, 2011. There were no comparative numbers for 2012.

Gain on Sale of Discontinued Operations, Net of Tax. During the year ended December 31, 2011, the Company recognized a gain from the sale of discontinued operations, net of tax, in the amount of \$53.7 million. This gain was the result of the sale of the Company's insurance lead generation business in 2011. There were no comparative numbers for 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. IPC's principal source of revenues for the insurance lead generation business sold to Bankrate, Inc. in December 2011 was transaction fees from participating insurance providers, either directly from an insurance company or from a local insurance agent. IPC recognized revenue when (i) persuasive evidence of an arrangement between IPC and the customer existed, (ii) delivery of the product to the customer occurred or service was provided to the customer, (iii) the price to the customer was fixed or determinable and (iv) collectability of the sales price was reasonably assured.

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, 2012.

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, 2012 and December 31, 2011, 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, 2012 of approximately \$140.8 million and \$62.7 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 \$10.3 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 2013, respectively.

The carrying value of our deferred tax assets, which was approximately \$48.6 million at December 31, 2012, 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, | |
|---|--------------------------|------------------|
| | 2012 | 2011 |
| Operating Activities: | | |
| Continuing operations | \$ (4,485) | \$ (1,583) |
| Discontinued operations | — | 182 |
| Investing Activities: | | |
| Continuing operations | (1,288) | 64,528 |
| Discontinued operations | — | (40) |
| Financing Activities: | | |
| Continuing operations | (33,485) | 60 |
| Discontinued operations | — | 446 |
| Increase (Decrease) In Cash and Cash Equivalents | \$ (39,258) | \$ 63,593 |

At December 31, 2012, IPC's principal source of liquidity was \$31.1 million in cash and cash equivalents. IPC adheres to an investment policy with low market or settlement risk with its current holdings. There are no restrictions or limitations regarding access to the \$31.1 million in cash and cash equivalents. Since inception, IPC has financed its operations primarily through the sale of preferred and common stock and cash flow from operations.

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 2011, net cash used by operations was \$1.4 million. This primarily consisted of IPC's net income of \$51.2 million which consisted of a net loss from continuing operations, net of tax, of \$3.3 million and income from discontinued operations, net of tax of \$54.5 million. The loss from continuing operations was partially offset by an increase in accounts payable of \$3.2 million. The loss from continuing operations was increased by an increase in prepaid expenses and other assets of \$1.8 million and an increase in accrued expenses of \$0.2 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. In 2011, net cash provided by investing activities was primarily due to \$63.8 million in proceeds from the sale of the discontinued operations, redemptions of short-term investments of \$2.8 million, redemptions of restricted short-term investments of \$0.6 million and payments from related parties of \$0.3 million. This was offset by \$2.2 million relating to the purchases of short-term investments. Net cash used by discontinued operations was \$40,000 in 2011.

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. Net cash provided by financing activities in 2011 was \$0.5 million. This consisted of cash provided by continuing operations of \$60,000. Net cash provided by discontinued operations was \$0.4 million in 2011. This was primarily due to proceeds from employee stock option exercises of \$3.7 million. This was offset by the Company eliminating a contingent liability of \$3.3 million from its balance sheet during the year ended December 31, 2011. On

May 2, 2011, the Company and the former shareholders of Potrero Media executed the Third Amendment to the Purchase Agreement pursuant to which the Company paid Potrero Media's former shareholders \$2.1 million on May 2, 2011 in exchange for their waiver of all rights to future consideration under the Stock Purchase Agreement.

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-22.

INTERNET PATENTS CORPORATION

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

| | |
|---|-----|
| Report of Independent Registered Public Accounting Firm | F-2 |
| Consolidated Balance Sheets as of December 31, 2012 and 2011 | F-3 |
| Consolidated Statements of Operations for the years ended December 31, 2012 and 2011 | F-4 |
| Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2012 and 2011 | F-5 |
| Consolidated Statement of Stockholders' Equity for the years ended December 31, 2012 and 2011 | F-6 |
| Consolidated Statements of Cash Flows for the years ended December 31, 2012 and 2011 | F-7 |
| Notes to Consolidated Financial Statements | F-8 |

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, 2012 and 2011, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2012. Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2). 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, 2012 and 2011, and the consolidated results of its operations and its cash flows for each of the two years in the period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ ERNST & YOUNG LLP

Sacramento, California
March 13, 2013

INTERNET PATENTS CORPORATION
CONSOLIDATED BALANCE SHEETS
(Amounts in thousands, except per share amounts)

| | December 31, | |
|---|--------------|-----------|
| | 2012 | 2011 |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 31,068 | \$ 70,326 |
| Short-term investments | 1,497 | 1,225 |
| Restricted short-term investments | 1,000 | - |
| Prepaid expenses and other current assets | 169 | 1,374 |
| Total current assets | 33,734 | 72,925 |
| Property and equipment, net | 32 | 42 |
| Other assets | 27 | 1,027 |
| Total assets | \$ 33,793 | \$ 73,994 |
| Liabilities and stockholders' equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 234 | \$ 3,385 |
| Accrued expenses | 346 | 541 |
| Income tax payable | - | 644 |
| Total current liabilities | 580 | 4,570 |
| Income tax liability | 101 | 101 |
| Stockholders' equity: | | |
| Convertible preferred stock, \$0.001 par value. Authorized: 5,000 shares; no shares issued or outstanding at 2012 and 2011 | - | - |
| Common stock, \$0.001 par value. Authorized: 25,000 shares; 11,033 shares issued and 7,752 shares outstanding at 2012; and 9,863 shares issued and 6,607 shares outstanding at 2011 | 11 | 10 |
| Paid-in capital | 221,726 | 216,401 |
| Treasury stock, 3,281 shares at 2012 and 3,256 shares at 2011 | (6,788) | (6,589) |
| Accumulated deficit | (181,837) | (140,499) |
| Total stockholders' equity | 33,112 | 69,323 |
| Total liabilities and stockholders' equity | \$ 33,793 | \$ 73,994 |

See accompanying notes.

INTERNET PATENTS CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts in thousands, except per share amounts)

| | Years Ended December 31, | |
|--|--------------------------|-----------|
| | 2012 | 2011 |
| Total revenues | \$ - | \$ - |
| Operating expenses: | | |
| Technology | - | 97 |
| General and administrative | 2,959 | 3,184 |
| Total operating expenses | 2,959 | 3,281 |
| Loss from operations | (2,959) | (3,281) |
| Other income (expense), net | 172 | 15 |
| Loss from continuing operations before income taxes | (2,787) | (3,266) |
| | (2,787) | (3,266) |
| Income tax (benefit) expense | (61) | - |
| Loss from continuing operations | (2,726) | (3,266) |
| Discontinued operations, net of tax: | | |
| Income from discontinued operations | - | 719 |
| Gain on sale of discontinued operations | - | 53,716 |
| Total discontinued operations | - | 54,435 |
| Net income (loss) | \$ (2,726) | \$ 51,169 |
| Net income (loss) per share: | | |
| Basic and diluted | | |
| Loss from continuing operations, net of tax | \$ (0.36) | \$ (0.56) |
| Discontinued operations, net of tax | - | 9.34 |
| Net income (loss) per basic common share | \$ (0.36) | \$ 8.78 |
| Shares used in computing income (loss) per share: | | |
| Basic and diluted | 7,659 | 5,831 |

See accompanying notes.

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INTERNET PATENTS CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Amounts in thousands)

| | Years ended December 31, | |
|-----------------------------|-----------------------------|-----------|
| | 2012 | 2011 |
| Net income (loss) | \$ (2,726) | \$ 51,169 |
| Comprehensive income (loss) | \$ (2,726) | \$ 51,169 |

See accompanying notes.

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INTERNET PATENTS CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years ended December 31, 2012 and 2011
(Amounts in thousands, except per share amounts)

| | Common Stock | | Paid-in Capital | Treasury Stock | | Accumulated Other Comprehensive Income (Loss) | Accumulated Deficit | Total |
|---|--------------|--------|--------------------|----------------|------------|---|------------------------|-----------|
| | Shares | Amount | | Shares | Amount | | | |
| Balances, December 31, 2010 | 8,714 | 9 | \$ 210,753 | (3,224) | \$ (6,334) | \$ — | (191,668) | \$ 12,760 |
| Issuance of shares through employee stock purchase plan and stock option plan | 1,149 | 1 | 4,023 | — | — | — | — | 4,024 |
| Share-based compensation expense | — | — | 1,565 | — | — | — | — | 1,565 |
| Repurchase of shares | — | — | — | (32) | (255) | — | — | (255) |
| Excess tax benefit from stock-based compensation | — | — | 60 | — | — | — | — | 60 |
| Comprehensive income: | | | | | | | | |
| Net income | — | — | — | — | — | — | 51,169 | 51,169 |
| Balances, December 31, 2011 | 9,863 | 10 | 216,401 | (3,256) | (6,589) | — | (140,499) | 69,323 |
| Issuance of shares through employee stock purchase plan and stock option plan | 1,170 | 1 | 5,325 | — | — | — | — | 5,326 |
| Cash distribution, \$5 per common share | — | — | — | — | — | — | (38,612) | (38,612) |
| Repurchase of shares | — | — | — | (25) | (199) | — | — | (199) |
| Comprehensive loss: | | | | | | | | |
| Net loss | — | — | — | — | — | — | (2,726) | (2,726) |
| Balances, December 31, 2012 | 11,033 | \$ 11 | \$ 221,726 | (3,281) | \$ (6,788) | \$ — | (181,837) | \$ 33,112 |

See accompanying notes.

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INTERNET PATENTS CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands)

| | Years Ended December 31, | |
|--|--------------------------|-----------|
| | 2012 | 2011 |
| Cash flows from operating activities: | | |
| Net income (loss) | \$ (2,726) | \$ 51,169 |
| Less Income from discontinued operations, net of tax | - | (54,435) |
| Loss from continuing operations, net of tax | (2,726) | (3,266) |
| Adjustments to reconcile loss from continuing operations to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 20 | 28 |
| Interest income on short-term investments | 6 | 2 |
| Loss on disposal of equipment | - | 11 |
| Prepaid expenses and other current assets | 1,205 | (845) |
| Other assets | 1,000 | (997) |
| Accounts payable | (3,151) | 3,213 |
| Accrued expenses | (195) | 170 |
| Income taxes payable | (644) | - |
| Income tax liability, long-term | - | 101 |
| Net cash used in continuing operations | (4,485) | (1,583) |
| Net cash provided by discontinued operations | - | 182 |
| Net cash used in operating activities | (4,485) | (1,401) |
| Cash flows from investing activities: | | |
| Purchases of short-term investments | (2,229) | (2,940) |
| Redemptions of short-term investments | 1,954 | 2,847 |
| Purchases of restricted short-term investments | (1,000) | - |
| Notes receivable from employees | - | 319 |
| Change in restricted cash | - | 580 |
| Purchases of property and equipment | (10) | (45) |
| Change in interest receivable | (3) | 2 |
| Proceeds from sale of discontinued operations | - | 63,765 |
| Net cash provided by (used in) continuing operations | (1,288) | 64,528 |
| Net cash used in discontinued operations | - | (40) |
| Net cash provided by (used in) investing activities | (1,288) | 64,488 |
| Cash flows from financing activities: | | |
| Proceeds from issuance of common stock through stock plans, net of repurchases | 5,127 | - |
| Distribution paid | (38,612) | - |
| Excess tax benefit from stock-based compensation | - | 60 |
| Net cash provided by (used in) continuing operations | (33,485) | 60 |
| Net cash provided by discontinued operations | - | 446 |
| Net cash provided by (used in) financing activities | (33,485) | 506 |
| Net increase (decrease) in cash and cash equivalents | (39,258) | 63,593 |
| Cash and cash equivalents, beginning of year | 70,326 | 6,733 |

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| | | | | |
|--|----|--------|----|--------|
| Cash and cash equivalents, end of year | \$ | 31,068 | \$ | 70,326 |
|--|----|--------|----|--------|

Supplemental disclosures of cash flow information and non-cash transactions:

| | | | | |
|----------------|--|-----|--|-----|
| Treasury Stock | | 199 | | 255 |
|----------------|--|-----|--|-----|

See accompanying notes.

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INTERNET PATENTS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Business of Internet Patents Corporation

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 10850 Gold Center Dr., Suite 250B, Rancho Cordova, CA 95670, and the telephone number at that location is (916) 853-1529. 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.

IPC retained certain assets generally not related to the insurance lead generation business including cash, short-term investments and its patent portfolio. On the Disposition Date, Bankrate acquired certain assets and assumed certain liabilities associated with the operation of the lead generation business. Bankrate did not assume certain liabilities related to real property leases, obligations related to IPC’s employees that arose prior to the Disposition Date, or obligations for employees that remained employed by IPC after the Disposition Date. IPC is also generally responsible for the tax obligations or entitled to tax refunds associated with the Disposition and for the taxes related to income or loss generated by the insurance lead generation business prior to the Disposition Date.

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. We intend to develop and operate a business that licenses and otherwise enforces our patented technologies. Our future revenues are expected to consist entirely of the royalties from licensing the patents and damages for past infringement. IPC cannot estimate what revenues, if any, it will receive in 2013. In addition to general and administrative expenses, including salaries and benefits, rent and utilities, we expect to incur expenses associated with patent infringement litigation.

2. Summary of Significant Accounting Policies

Basis of presentation

The consolidated financial statements include the accounts of IPC and its wholly-owned subsidiaries, Goldrush Insurance Services, Inc. and InsWeb Insurance Services, Inc. All significant inter-company accounts and transactions have been eliminated in the consolidated financial statements.

IPC recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet. For non-recognized subsequent events that must be disclosed to keep the financial statements from being misleading, an entity will be required to disclose the nature of the event as well as an estimate of its financial effect, or a statement that such an estimate cannot be made.

Use of estimates

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The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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. Actual results could differ from those estimates.

Cash, cash equivalents and short-term investments

IPC considers all highly liquid investments with original maturities of three months or less at the date of purchase to be cash equivalents. Investments with maturities greater than three months at the date of purchase but less than one year are classified as short-term investments. Cash, cash equivalents and short-term investments are stated at cost, which approximates fair value, given the relatively short duration of the underlying securities.

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2. Summary of Significant Accounting Policies (continued)

Revenue recognition

Prior to the Disposition Date, IPC received revenue from the delivery of qualified leads to insurance companies, agents and other providers. IPC recognized revenue when (i) persuasive evidence of an arrangement between IPC and the customer existed, (ii) delivery of the product to the customer occurred or service had been provided to the customer, (iii) the price to the customer was fixed or determinable and (iv) collectability of the sales price was reasonably assured. Revenue from the delivery of qualified leads to insurance companies, agents and other providers was included in discontinued operations for the year ended December 31, 2011, as a result of the Disposition. There was no such revenue for the year ended December 31, 2012.

Transaction fee revenue from consumer leads was recognized when such lead (either as a consumer click-through or after completion of the IPC application) was delivered to a participating insurance company. Transaction fee revenue from closed policies was recognized in the period that the insurance company sold an insurance policy from a qualified consumer lead. Transaction revenue from consumer leads was included in discontinued operations for the year ended December 31, 2011, as a result of the Disposition. There was no such revenue for the year ended December 31, 2012.

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 related to these types of revenue streams had been entered into as of December 31, 2012.

Online marketing and direct marketing expense

Prior to the Disposition Date, IPC's marketing strategy was designed to increase consumer traffic to its website and to drive awareness of its insurance products and services. Fees related to IPC's online marketing were expensed in the period the related consumer click-through occurs or in some cases, when the consumer leads are generated. Online advertising payments based on per unit transactions are expensed in the period in which the consumer traffic occurred and are included in direct marketing expense.

Costs related to advertising and promotions of products were charged to sales and marketing expense as incurred. Direct marketing expense for the year ended December 31, 2011 was \$32,894,000. Online marketing and direct marketing expense was included in discontinued operations for the year ended December 31, 2011, as a result of the Disposition. There were no such expenses for the year ended December 31, 2012.

Other Income and (Expense), Net.

Other income and (expense), net was \$172,000, in 2012, compared to \$15,000 in 2011. 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. The Company recognized interest income in 2012 and 2011 in the amount of \$6,000 and \$15,000, respectively. This represented interest earned on IPC's investment portfolio of cash, cash equivalents and short-term investments. IPC expects that Other Income and (Expense), Net will consist entirely of returns received from its investment portfolio in the near future, which will be negligible given current economic conditions in the United States.

Property and equipment and other long-lived assets

Property and equipment are stated at cost less accumulated depreciation. Depreciation on computer and office equipment, furniture and fixtures and purchased software is calculated using the straight-line method over the estimated useful lives of the assets, generally two to five years. Amortization on leasehold improvements is calculated using the straight-line method over the estimated useful lives of the improvements or the remaining term of the lease, whichever is shorter. Expenditures for maintenance and repairs are charged to expense as incurred.

IPC evaluates the recoverability of its long-lived assets, including intangible assets subject to amortization in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 360, Property, Plant and Equipment. ASC 360 requires the recognition of impairment losses related to long-lived assets in the event the net carrying value of such assets exceeds fair value. IPC assesses the impairment of its long-lived assets annually or when events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. No such indicators of impairment were identified as of December 31, 2012 and 2011.

2. Summary of Significant Accounting Policies (continued)

Concentration of risk—credit

Financial instruments that potentially subject IPC to concentrations of credit risk, as defined by ASC 825, “Financial Instruments,” consist principally of cash, cash equivalents and short-term investments. IPC deposits its cash, cash equivalents and short-term investments with various domestic financial institutions. Such deposits may exceed federal deposit insurance limits.

IPC’s cash equivalents and investments consist of diversified investment grade securities. IPC’s investment policy limits the amount of credit exposure to investments in any one issue, and IPC believes no significant concentration of credit risk exists with respect to these investments.

Prior to the Disposition, IPC’s customer base was dispersed across many different geographic areas, and most customers were in the insurance industry in the United States. During the year ended December 31, 2012 and as of the year ended December 31, 2011, we had no customers or accounts receivable. Pursuant to the terms of the Asset Purchase Agreement, Bankrate was required to pay us amounts it received from customers for the insurance lead generation business we conducted prior to the Disposition Date. The amount that IPC received from Bankrate in 2012 for accounts receivable purchased from IPC was approximately \$67,000 and no more payments are expected. This was reported as other income for the year ended December 31, 2012.

Share-Based Payments

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.

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2. Summary of Significant Accounting Policies (continued)

IPC recognizes compensation costs for stock-based payment transactions to employees and Board of Directors, based on their grant-date fair value on a straight-line approach over the service period for which such awards are expected to vest. The fair value of stock options pursuant to the IPC's 1997 and 2008 Stock Option Plans and Employee Stock Purchase Plan ("ESPP"), respectively, is determined using the BSM option-pricing model. The determination of fair value is affected by IPC's stock price, as well as assumptions regarding subjective and complex variables such as expected employee exercise behavior and our expected stock price volatility over the expected term of the award. Generally, IPC's assumptions are based on historical information and judgment is required to determine if historical trends may be indicators of future outcomes. The key assumptions for the BSM option-pricing model calculation are:

Expected term. The expected term represents the period that IPC's share-based awards are expected to be outstanding. IPC's expected term was determined based on historical experience of similar awards, giving consideration to the contractual terms of the share-based awards, vesting schedules and expectations of future employee behavior.

Expected volatility. IPC uses the trading history of its common stock in determining an estimated volatility factor when using the Black-Scholes option-pricing formula to determine the fair value of options granted.

Risk-free interest rate. IPC bases the risk-free interest rate used in the BSM option-pricing model on the implied yield currently available on U.S. Treasury zero-coupon issues with the same or substantially equivalent remaining term.

Expected dividend. Historically IPC has not declared or paid cash or stock dividends. Therefore, IPC uses a zero value for the expected dividend value factor when using the Black-Scholes option-pricing formula to determine the fair value of options granted.

Estimated forfeitures. ASC 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from initial estimates. When estimating forfeitures, IPC considers historical voluntary and involuntary termination behavior as well as analysis of actual option forfeitures.

Employee stock-based compensation expense is calculated based on awards ultimately expected to vest and is reduced for estimated forfeitures. Forfeitures are revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates and an adjustment to stock-based compensation expense will be recognized at that time.

Changes to our underlying stock price, our assumptions used in the BSM option-pricing model calculation and the IPC's forfeiture rate, as well as future equity granted or assumed through acquisitions could significantly impact the compensation expense we recognize.

In conjunction with the Disposition, all of the Company's outstanding and unvested stock options vested. As of December 31, 2012 and 2011, the Company had no outstanding unrecognized stock-based compensation.

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.

Net income per share

Basic and diluted net income per share is computed using the weighted-average number of shares of common stock outstanding. Diluted earnings per share is a measure of the potential dilution that would occur if stock options had been exercised.

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2. Summary of Significant Accounting Policies (continued)

The following table reconciles the denominator used to calculate basic and diluted net income per share of common stock:

| (In thousands, except per share amounts) | Year Ended December 31, | |
|---|-------------------------|-----------|
| | 2012 | 2011 |
| Numerator for basic and diluted net income (loss) per share: | | |
| Net income (loss) available to common shareholders: | \$ (2,726) | \$ 51,169 |
| Denominator for net income (loss) per share: | | |
| Basic and diluted—weighted average shares of common stock outstanding | 7,659 | 5,831 |

Potentially dilutive securities are not included in the diluted net income calculation, because the Company had a net loss from continuing operations, net of tax. The antidilutive securities that are not included in the calculation above are employee stock options to purchase shares totaling 1,000 as of December 31, 2012 and 470,000 as of December 31, 2011.

Recently Issued Accounting Pronouncements

Fair Value Measurement. In May 2011, the FASB issued additional guidance on fair value disclosures. This guidance contains certain updates to the measurement guidance as well as enhanced disclosure requirements. The most significant change in disclosures is an expansion of the information required for “Level 3” measurements including enhanced disclosure for: (1) the valuation processes used by the reporting entity; and (2) the sensitivity of the fair value measurement to changes in unobservable inputs and the interrelationships between those unobservable inputs, if any. This guidance became effective for fiscal year 2012 on January 1. The adoption of this guidance did not have a material impact on the Company's consolidated results of operations or financial condition, as we had no Level 3 measurements as of December 31, 2012 or 2011.

Presentation of Comprehensive Income. In September 2011, the FASB issued guidance on the presentation of comprehensive income. This guidance eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. The guidance allows two presentation alternatives: (1) present items of net income and other comprehensive income in one continuous statement, referred to as the statement of comprehensive income; or (2) in two separate, but consecutive, statements of net income and other comprehensive income. This guidance became effective for the Company for fiscal year 2012. The Company elected to present items of net income and other comprehensive income (loss) in two separate, but consecutive, statements of operations and other comprehensive income (loss).

Segment information

From October 1, 2010 through April 28, 2011, the Company's operations were managed and reported in two operating segments, InsWeb and Potrero Media. Both segments operated online insurance lead generation businesses for a variety of personal insurance products. On April 28, 2011 until the Disposition Date, InsWeb and Potrero Media operations were combined into a single business under the InsWeb name, and Potrero Media Corporation became a non-operating subsidiary of the Company. The combined operations created a single operating segment as described in the guidance of ASC 280 "Segment Reporting." In particular, the CODM no longer allocated resources between InsWeb and Potrero Media and discrete financial information was no longer available for Potrero Media.

2. Summary of Significant Accounting Policies (continued)

On December 22, 2011, the day after the Disposition became effective, the Company's results of operations no longer included the results of the insurance lead generation business that was sold to Bankrate. The financial statements herein have been presented with the insurance lead generation business segment presented as discontinued operations. The Company's patent licensing business is conducted through a single business unit and under a single management structure; discrete financial information will be available only at the company level. The CODM will review the operating results and make decisions about resources on a company wide basis.

3. Acquisition & Divestiture

On October 1, 2010 (the "Closing Date"), IPC completed its acquisition of 100% of the capital stock of Potrero Media pursuant to the Stock Purchase Agreement and related amendments ("Purchase Agreement") signed on August 31, 2010. Potrero Media was acquired for a fair market value of \$11.2 million paid in a combination of cash, stock and contingent earnout payments as discussed further below. IPC accounts for acquisitions in accordance with ASC 805 "Business Combinations." Accordingly, the net assets acquired were recorded at their estimated fair values and Potrero Media's operating results are included in the Company's consolidated financial statements from the date of acquisition until the Disposition Date.

The maximum purchase price for Potrero Media, exclusive of the discounting or probability reductions associated with the contingent consideration, was \$12.5 million as of the Closing Date. The \$12.5 million maximum purchase price is comprised of \$6.0 million in cash paid at the Closing Date, \$844,000 in cash paid within 30 days of the Closing Date associated with excess working capital as of September 30, 2010, \$1.5 million in cash due at the first anniversary of the Closing Date, \$1.2 million related to issuance of 312,578 shares of the Company's common stock to be held in escrow and released to Potrero Media's former shareholders on the first anniversary of the Closing Date and a total of up to \$3.0 million in contingent consideration, to be paid in cash up to \$1.0 million annually for each of the first three full calendar years following the Closing Date.

Contingent Consideration

On May 2, 2011, the Company and the former shareholders of Potrero Media executed the Third Amendment to the Purchase Agreement pursuant to which the Company paid Potrero Media's former shareholders \$2.1 million on May 2, 2011 in exchange for their waiver of all rights to future consideration under the Stock Purchase Agreement. As a result, the Company eliminated the contingent consideration liability of \$3.3 million from its balance sheet during year ended December 31, 2011. The Company recognized other income of approximately \$1.2 million, included in income for discontinued operations in the Consolidated Statements of Operations for the year ended December 31, 2011. This represented the difference between the payment of \$2.1 million agreed to in Third Amendment and the \$3.3 million contingent consideration liability outstanding as of May 2, 2011, the execution date of the Third Amendment. As noted above, this contingent consideration consisted of potential payments of up to \$1.0 million annually for three consecutive years.

As a result of the Company's acquisition of Potrero Media during 2010, the Company recognized approximately \$2,700,000 million in goodwill. As a result of the Disposition, the Company's goodwill was eliminated on the Disposition Date.

3. Acquisition & Divestiture (continued)

Pro forma Results of Operations

The unaudited pro forma results of operations provided below for fiscal 2011 are presented as though the acquisition had occurred at the beginning of the period presented. The pro forma information presented below does not intend to indicate what the Company's results of operations would have been if the acquisition had in fact occurred at the beginning of the earliest period presented nor does it intend to be a projection of the impact on future results or trends. The pro forma results below do not reflect the reclassification in the statements of operations for the year ended December 31, 2011 due to the Company's insurance and lead generation business being recorded in income from discontinued operations.

| | Year ended December 31, 2011 |
|----------------------------|---------------------------------|
| Total revenues | \$ 48,967 |
| Operating loss | (3,719) |
| Net income | 51,169 |
| Basic earnings per share | 8.78 |
| Diluted earnings per share | 8.78 |

For the year ended December 31, 2011, the pro forma results above include a gain on the sale of discontinued operations, net of tax, of \$53.7 million.

Discontinued Operations

Insurance Lead Generation Business

In December 2011, we completed the sale of substantially all of the operating assets and liabilities of our insurance lead generation business to Bankrate for an aggregate cash purchase price of \$63.8 million resulting in a gain of \$53.7 million, net of tax. As a result of this sale, we will no longer conduct the lead generation business. Instead, we will focus on the new Patent Licensing Business.

The results of the insurance lead generation business are reported as a discontinued operation in our consolidated financial statements for all periods presented.

Pro forma Results of Operations

The following table summarizes the financial information for the discontinued operations of the lead generation business for the year ended December 31, 2011:

| | 2011 |
|--|-----------|
| Operating revenues | \$ 48,967 |
| Operating expenses including depreciation and amortization | 49,405 |
| Loss from operations | (438) |
| Other income | 1,157 |

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| | | |
|---|----|--------|
| Income from discontinued operations | \$ | 719 |
| Gain on sale of discontinued operations, net of tax | \$ | 53,716 |

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4. Share-Based Payments

In July 1997, IPC authorized the 1997 Stock Option Plan (the “Option Plan”) and the Senior Executive Option Plan (the “Executive Plan”). Under the Option Plan, the Board of Directors may issue incentive stock options to employees of IPC and its subsidiaries and may also issue nonqualified stock options to employees, officers, directors, independent contractors and consultants of IPC and its subsidiaries. Under the Executive Plan, the Board of Directors may issue nonqualified stock options to employees, officers and directors of IPC and its subsidiaries.

In May 2003, the Option Plan was amended, with stockholder approval, to provide that each director would receive a fully-vested option to purchase 5,000 shares of common stock on July 1st (or the first business day thereafter) of each year in which the director remains in office. The Board of Directors agreed to forgo their shares in 2012.

The Option Plan provided for an automatic annual increase in the share reserve, to be effective on the first day of each fiscal year, by a number of shares equal to 5% of the number of common shares outstanding as of the last day of the preceding fiscal year. With the expiration of the 1997 Stock Option Plan and Senior Executive Option Plan, in July 2007, IPC’s Board of Directors authorized and shareholders approved the 2008 Stock Option Plan in February 2008, and options to purchase 1,500,000 shares of common stock were authorized under this plan. These options have a contractual term ranging from two to five years.

Options granted under the above plans are priced at the common stock’s fair market value on the date of grant and generally vest ratably over the requisite service period. In 2012, there were no option grants.

Certain options granted to members of IPC’s Board of Directors vest immediately. In conjunction with the Disposition and in accordance with the terms underlying the Option Plan and the Executive Plan, all of the outstanding and unvested options vested. As a result of the acceleration of the option vesting due to the change of control, the Company recognized the remaining unrecognized stock-compensation expense in the amount of \$413,000 during 2011. For the year ended December 31, 2011, all of the Company’s stock-based compensation expense was recognized in income from discontinued operations. As there were no outstanding and unvested options on December 31, 2011 and there were no options granted during 2012, the Company had no stock-based compensation in 2012. The Company has reserved common shares for issuance in conjunction with the issuance of options underlying the Option Plan and the Executive Plan.

Options outstanding and currently exercisable by exercise price at December 31, 2012 are as follows:

| Exercise Prices (in thousands, except contractual life and exercise price amounts) | Options Outstanding | | | Options Currently Exercisable | |
|--|-----------------------|--|--|-------------------------------|---------------------------------------|
| | Number Outstanding | Weighted Average Remaining Contractual Life (in years) | | Number Outstanding | Weighted Average Exercise Price |
| \$1.90 - \$5.25 | 35 | 1.12 | | 35 | \$ 4.46 |
| \$7.00 - \$7.70 | 81 | 3.02 | | 81 | 7.27 |
| \$8.51 - \$9.10 | 60 | 2.18 | | 60 | 8.71 |
| \$11.04 - \$11.16 | 55 | 0.18 | | 55 | 11.08 |
| | 231 | 1.83 | | 231 | \$ 8.12 |

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IPC had an Employee Stock Purchase Plan (the "Purchase Plan") under which eligible employees could authorize payroll deductions of up to 15% of their compensation to purchase shares at 85% of the lower of the fair market value of the common stock on the date of commencement of the offering or on the last day of the six-month purchase period. During 2012 and 2011, 0 and 8,073 shares, respectively, were distributed to employees at prices ranging from \$4.32 per share to \$6.46 per share. The weighted average fair values of the 2012 and 2011 awards were \$0 and \$6.36 per share, respectively.

As of the Disposition Date, the Purchase Plan is no longer active.

Share-based compensation expense resulting from stock options and the Purchase Plan for the years ended December 31, 2012 and 2011 were included in income from discontinued operations in the amount of \$0 and \$1,565,000, respectively.

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4. Share-Based Payments (continued)

The fair value of share-based awards granted pursuant to IPC's stock option plans was estimated using the BSM option-pricing model with the following weighted average assumptions for the years ended December 31, 2012 and 2011:

| | Year Ended December 31 | |
|---|------------------------|---------|
| | 2012 | 2011 |
| Expected term (in years) | — | 3.00 |
| Expected volatility | — | 0.78 |
| Risk-free interest rate | —% | 0.99% |
| Expected dividend | — | — |
| Weighted-average fair value at grant date | \$ — | \$ 4.09 |

The BSM option-pricing model was also used to determine the fair value of the shares issued for the Purchase Plan for the year ended December 31, 2011. In connection with the Purchase Plan for 2011, the assumptions used for expected term (in years), volatility and risk-free interest rate were approximately 0.50, 0.44 and 0.2%, respectively, for the year ended December 31, 2011.

Activity under all of IPC's stock option plans is as follows:

| (in thousands, except exercise price amounts) | Shares Available for Grant | Shares Outstanding | Weighted Average Exercise Price |
|---|----------------------------|--------------------|---------------------------------|
| Balances, December 31, 2011 | 540 | 1,402 | \$ 5.14 |
| Additional shares reserved | 132 | — | — |
| Exercised | — | (1,170) | 4.55 |
| Canceled/forfeited | 1 | (1) | 3.01 |
| Balances, December 31, 2012 | 673 | 231 | \$ 8.12 |

All options had fully vested as of December 31, 2011 and there were no unvested options at December 31, 2012.

The aggregate intrinsic values of options outstanding and exercisable at December 31, 2012 and 2011 were \$3,000 and \$4,405,000, respectively. Aggregate intrinsic value represents the total intrinsic value (the aggregate difference between the closing stock price of IPC's common stock of \$3.55 and \$8.14 on December 31, 2012 and 2011, respectively and the exercise price for in-the-money options) that would have been received by the option holders if all options had been exercised on December 31, 2012 and 2011, respectively. The total intrinsic value of options exercised for the years ended December 31, 2012 and 2011 were \$4,174,000 and \$4,271,000, respectively. The weighted-average remaining contractual terms of options outstanding and exercisable at December 31, 2012 and 2011 were 1.83 and 2.32 years, respectively.

As of December 31, 2011, there was no unrecognized compensation cost for all stock options outstanding, as all options became fully vested on December 11, 2011, which was ten days prior to the Disposition Date, in accordance to with the IPC Stock Option and Executive Plans.

Cash received from stock option exercises and purchases under the Purchase Plan for December 31, 2012 and 2011 were \$5,326,000 and \$4,024,000, respectively.

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In January 2012, one of the Company's Board Members exercised 42,416 options at an exercise price of \$4.94 per share. In a cashless exercise, 25,000 shares were tendered to the Company in satisfaction of the exercise price of the options, at a value of \$7.95 per share, based on the closing price of the Company's common stock on the date of exercise. The 25,000 shares tendered have been accounted for by the Company as treasury stock in the accompanying consolidated balance sheet.

In April 2011, the Company's Chairman of the Board and Chief Executive Officer exercised 41,677 options at an exercise price of \$6.12 per share. In a cashless exercise, 31,955 shares were tendered to the Company in satisfaction of the exercise price of the options, at a value of \$7.98 per share, based on the closing price of the Company's common stock on the date of exercise. The 31,955 shares tendered have been accounted for by the Company as treasury stock in the accompanying consolidated balance sheet.

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5. Fair Value Measurements

The following table presents the assets and liabilities measured at fair value on a recurring basis as of December 31, 2012 (in thousands):

| | December 31, | | Level 1 | Level 2 | Level 3 |
|-----------------------------------|--------------|--------------|-----------------|-----------|------------|
| | 2012 | | | | |
| Assets: | | | | | |
| Cash equivalents | \$ | 44 | \$ 44 | \$ | —\$ |
| Short-term investments | | 1,497 | 1,497 | | — |
| Restricted short-term investments | | 1,000 | 1,000 | | — |
| Total assets at fair value | \$ | 2,541 | \$ 2,541 | \$ | —\$ |

Substantially all of the Company's cash equivalents and short-term investments represent certificates of deposit of \$245,000 or more.

The following table presents the financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2011 (in thousands):

| | December 31, | | Level 1 | Level 2 | Level 3 |
|-----------------------------------|--------------|--------------|-----------------|-----------|------------|
| | 2011 | | | | |
| Assets: | | | | | |
| Cash equivalents | \$ | 310 | \$ 310 | \$ | —\$ |
| Short-term investments | | 1,225 | 1,225 | | — |
| Restricted short-term investments | | — | — | | — |
| Total assets at fair value | \$ | 1,535 | \$ 1,535 | \$ | —\$ |

Cash equivalents, short-term investments and restricted short-term investments include certificates of deposit, money market funds and commercial paper from corporations whose credit ratings are P-1 by Moody's or A-1 by Standard & Poor's. The carrying value of these cash equivalents, short-term investments and restricted short-term investments approximates fair value. For these securities, IPC uses quoted prices in active markets for identical assets to determine their fair value and are considered to be Level 1 instruments.

The fair value of the contingent consideration associated with the Potrero Media acquisition was accrued for and classified as accrued contingent consideration in the accompanying consolidated balance sheet. The fair value was determined based on unobservable inputs, namely management's estimate of expected performance based on current information, and therefore are considered to be Level 3 liabilities. The following table provides a reconciliation of the beginning and ending balances for the liability measured at fair value using significant unobservable inputs (Level 3).

| | Contingent Consideration |
|---|-----------------------------|
| Balance as of January 1, 2011 | \$ 3,243 |
| Payments | (2,123) |
| Interest on contingent consideration | 34 |
| Gain on extinguishment of contingent consideration (see Note 3) | (1,154) |
| Balance as of December 31, 2011 | \$ - |

Management determined the fair value of contingent consideration based on a number of factors, including a third-party valuation, utilizing either the cost or income approach in conjunction with discussions with management

and certain forecasts prepared by IPC. The income approach was utilized for the valuation of customer relationships and non-compete agreements. The cost approach was utilized for the valuation of websites and technologies. When the income approach was used, the rate utilized to discount net cash flows to their present values was approximately 30%. The discount rates were determined using a weighted-average cost of capital which incorporated the implied cost of equity and debt of IPC based on the forecasted cash flows after consideration of IPC's rate of return on debt, capital, equity, the weighted average return on invested capital, and the internal rate of return specific to this transaction.

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6. Consolidated Financial Statement Details

Cash, cash equivalents and short-term investments

Cash and cash equivalents consist of the following (in thousands):

| | December 31, | |
|--------------------|--------------|-----------|
| | 2012 | 2011 |
| Cash | \$ 31,024 | \$ 70,016 |
| Money market funds | 44 | 310 |
| Commercial paper | — | — |
| | \$ 31,068 | \$ 70,326 |

IPC accounts for its short-term investments under ASC 320, "Investments - Debt and Equity Securities". Management determines the appropriate classification of its debt securities at the time of purchase and reevaluates such designation as of each balance sheet date. IPC had short-term investments of \$1.5 million at December 31, 2012 and \$1.2 million at December 31, 2011.

At December 31, 2012, the contractual maturities of IPC's investment portfolio are less than one year. The gains and losses from the sale of available-for-sale securities have not been significant to date.

Restricted cash equivalents and restricted short-term investments

As of December 31, 2012 and December 31, 2011, restricted short-term investments consisted of \$1.0 million and \$0 respectively. The \$1.0 million is used as collateral for a letter of credit of the same amount, which secures the Company's obligations under the office space lease for IPC's corporate headquarters.

Prepaid expenses and other current assets

Prepaid expenses and other current assets consist of the following (in thousands):

| | December 31, | |
|------------------------------|--------------|----------|
| | 2012 | 2011 |
| Receivable due from Bankrate | \$ — | \$ 1,098 |
| Prepaid insurance | 60 | 121 |
| Prepaid rent | 39 | — |
| Prepaid taxes | 50 | 14 |
| Other | 20 | 141 |
| | \$ 169 | \$ 1,374 |

Property and equipment

Property and equipment, net, consists of the following (in thousands):

| | December 31, | |
|-------------------------------|--------------|-------|
| | 2012 | 2011 |
| Computer and office equipment | \$ 35 | \$ 35 |
| Furniture and fixtures | 365 | 365 |
| Leasehold improvements | 23 | 23 |

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| | | |
|-------------------------------|-------|-------|
| Software | 24 | 14 |
| | 447 | 437 |
| Less accumulated depreciation | (415) | (395) |
| | \$ 32 | \$ 42 |

Depreciation expense was \$20,000 and \$100,000 for the years ended December 31, 2012 and 2011, respectively. For the year ended December 31, 2011, income from discontinued operations included \$72,000 of depreciation expense. The remaining expense was in income from continuing operations.

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6. Consolidated Financial Statement Details (continued)

Accrued expenses

Accrued expenses consist of the following (in thousands):

| | December 31, | |
|--|--------------|--------|
| | 2012 | 2011 |
| Accrued employee compensation | \$ — | \$ 239 |
| Deferred rent | 226 | 202 |
| Accrued lease obligations (see Note 7) | 95 | — |
| Other | 25 | 100 |
| | \$ 346 | \$ 541 |

In 2012, IPC recorded a charge of \$95,000 to record an accrual for lease obligations relating to a formerly occupied facility in San Francisco, California. In evaluating these lease obligations, IPC must make assumptions regarding the estimated future sublease income relative to this facility. These estimates and assumptions are affected by area-specific conditions such as new commercial development, market occupancy rates and future market prices. As a result of the current conditions in the real estate market where this IPC property is located and the inherent risks associated with its sub-lessees, the Company recorded a charge of \$95,000 in 2012, representing the difference between IPC's lease obligations for this facility and sub-lease income it expects to receive, based on sub-leases entered into, for the duration of the lease. The sub-leases relate to the formerly occupied facility. If this estimate or the related assumptions change in the future, IPC may be required to record a charge to increase its existing accrual. See also Note 7.

7. Commitments and Contingencies

Leases

IPC has a non-cancelable 5-year full-service lease for approximately 16,000 square feet of office space in a building that houses IPC's headquarters. 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. A portion of the premises currently is subleased to Bankrate, Inc. under a month to month lease that will terminate on March 31, 2013.

Former Related Party 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 for the remainder of the lease. As of December 31, 2012, IPC is expected to receive \$167,000 for the duration of the lease. The premises formerly housed Potrero Media's headquarters and its principal administrative, product development, sales and marketing operations. Mr. Richard A. Natsch, former President and Chief Operating Officer of IPC and Mrs. Heather K. Natsch, former SVP of IPC are co-owners of Mission Potrero Properties, LLC, which is the owner of the property. As of the Disposition Date, Mr. and Mrs. Natsch were no longer employed by IPC and were no longer considered to be related parties. For the years ended December 31, 2012 and 2011, the Company expensed \$150,000 each year, related to this lease.

7. Commitments and Contingencies (continued)

Future minimum lease commitments as of December 31, 2012 are summarized as follows (in thousands):

| Years ending December 31, | Future minimum lease commitments |
|---------------------------|--|
| 2013 | \$ 472 |
| 2014 | 444 |
| 2015 | 342 |
| 2016 | 350 |
| 2017 | 58 |
| Thereafter | <u>1,666</u> |
| | \$ 1,666 |

Rent expense, net of sub-lease income, for the years ended December 31, 2012 and 2011 was \$274,000 and \$694,000, respectively.

Future minimum sub-lease payments expected to be received as of December 31, 2012 are summarized as follows (in thousands):

| Years ending December 31, | Future minimum sub- lease payments |
|---------------------------|---|
| 2013 | \$ 90 |
| 2014 | 77 |
| | <u>\$ 167</u> |

8. Income Taxes

The components of the deferred tax assets and liabilities are presented below (in thousands):

| | December 31, | |
|-----------------------------------|--------------|-----------|
| | 2012 | 2011 |
| Net operating loss carry forwards | \$ 47,335 | \$ 46,780 |
| Tax credit carry forwards | 981 | 1,007 |
| Accruals and allowances | 90 | 176 |
| Other | 162 | 481 |
| Total deferred tax asset | 48,568 | 48,444 |
| Less valuation allowance | (48,568) | (48,444) |
| Net deferred tax asset | \$ — | \$ — |

Due to uncertainty surrounding the realization of the favorable tax attributes in future tax returns, IPC has recorded a valuation allowance against its deferred tax asset. The valuation allowance recorded for the year ended December 31, 2012 increased by \$124,000 and for the year ended December 31, 2011 decreased by \$17,932,000.

The valuation allowance in both 2012 and 2011 includes \$2.7 million related to excess tax benefits of stock option deductions prior to the adoption of ASC Topic 718. The benefits will increase additional paid-in capital when realized.

For tax return purposes, IPC had net operating loss carry forwards at December 31, 2012 of approximately \$140.8 million and \$62.7 million for federal income tax and state income tax purposes, respectively. Federal and state net operating loss carry forwards begin expiring in 2019 and 2013, respectively.

IPC recognized \$25,000 and \$36,000 in current federal and state tax benefit, respectively, for the year ended December 31, 2012. IPC recognized \$524,000 and \$287,000 in current federal and state tax expense from discontinued operations, respectively, for the year ended December 31, 2011.

The effective tax rate for income taxes is different than the amount computed using the applicable statutory federal income tax rate with the difference for each year summarized below:

| | December 31, | |
|---|--------------|---------|
| | 2012 | 2011 |
| Federal tax at statutory rate | 34.0% | 35.0% |
| Share based compensation | 43.2% | (0.5)% |
| Sale of intangible assets | 0.0% | 1.8% |
| Contingent liability true-up | 14.7% | 0.0% |
| Other | (0.3)% | 1.7% |
| Adjustment due to change in valuation allowance | (89.4)% | (36.4)% |
| | 2.2% | 1.6% |

8. Income Taxes (continued)

The federal statutory rate was 35% in 2011 because taxable income exceeded \$10 million. In 2012, the federal statutory rate is 34% as this is the rate at which the Company expects to realize its deferred tax assets in the future. The 2011 effective tax rate reflected pre-tax income and tax expense, while the 2012 effective tax rate reflects pre-tax loss and tax benefit.

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, 2012 and December 31, 2011, 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.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

| | 2012 | | 2011 | |
|--|------|-----|------|-----|
| Balance at January 1 | \$ | 300 | \$ | 300 |
| Increase (decrease) related to prior year tax positions | | — | | — |
| Increase (decrease) related to current year tax positions | | — | | — |
| Settlements | | — | | — |
| Reductions due to lapse of applicable statute of limitations | | — | | — |
| Balance at December 31 | \$ | 300 | \$ | 300 |

Interest and penalty costs related to unrecognized tax benefits, if any, are classified as a component of income tax expense. IPC did not recognize any interest and penalty expense related to unrecognized tax benefits for the years ended December 31, 2012 and 2011, due to immateriality.

IPC files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. IPC is not currently under audit by any jurisdiction, however, IPC is subject to U.S. federal and state examination for tax years 1999 through 2012.

9. Employee Benefit Plan

Until its termination effective June 1, 2012, IPC had a defined contribution plan offered to all eligible employees, which was qualified under section 401(k) of the Internal Revenue Code. IPC matched 50% of the first 4% of elective contributions made by each qualifying employee in 2012 and 2011 and an additional discretionary match up to an additional 50% of the first 4% of elective contributions, if certain adjusted EBITDA targets are met. Employer contributions for the years ended December 31, 2012 and 2011 were \$3,000 and \$116,000.

10. Related Party Transaction

IPC leases approximately 10,000 square feet of office space in San Francisco, California under a lease expiring in September 2014. The premises formerly housed Potrero Media's headquarters and its principal administrative, product

development, sales and marketing operations. Mr. Richard A. Natsch, IPC's former President and Chief Operating Officer, and Mrs. Heather K. Natsch, former SVP of IPC, are co-owners of Mission Potrero Properties, LLC, which is the owner of the property. As of the Disposition Date, Mr. and Mrs. Natsch were no longer employed by IPC and were no longer considered to be related parties. For the years ended December 31, 2012 and 2011, the Company expensed \$150,000 each year, related to this lease.

11. Distribution

On January 4, 2012, the Board of Directors declared a special distribution of \$5 per share of Common Stock and set February 9, 2012 as the record date and March 10, 2012 as the payment date for the special cash distribution. There were 7,722,377 shares outstanding on the record date and the Company distributed a total of \$38,612,000 to shareholders on the payment date.

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Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

(a) Evaluation of disclosure controls and procedures . Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended. Based upon that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this annual report.

(b) Management’s report on internal control over financial reporting. Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed by, or under the supervision of, our Chief Executive Officer and Chief Financial Officer, and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles (“GAAP”), and includes those policies and procedures that:

1. pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of IPC;
2. provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and
3. provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in condition, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation using criteria established in Internal Control – Integrated Framework our management concluded that our internal control over financial reporting was effective as of December 31, 2012.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management’s report was not subject to attestation by our registered public accounting firm pursuant to rules of the SEC that permit us to provide only management’s report in this annual report.

- (c) Changes in internal control over financial reporting. There has been no change in IPC's internal control over financial reporting during the quarter ended December 31, 2012 that has materially affected, or is reasonably likely to materially affect, IPC's internal control over financial reporting.

Item 9B. Other Information.

None.

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PART III

The SEC allows us to include information required in this report by referring to other documents or reports we have already filed or will soon be filing. This is called “incorporation by reference.” We intend to file our definitive proxy statement pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this report, and certain information therein is incorporated in this report by reference.

Item 10. Directors and Executive Officers and Corporate Governance.

The information required by this Item with respect to our management is incorporated by reference to information set forth in our definitive proxy statement under the heading “Management.”

The information required by this Item with respect to compliance with Section 16(a) of the Securities Exchange Act of 1934 is incorporated by reference to information set forth in our definitive proxy statement under the heading “Section 16(a) Beneficial Ownership Reporting Compliance.”

The information required by this Item with respect to our code of ethics is incorporated by reference to information set forth in our definitive proxy statement under the heading “Proposal No. 1 – Election of Directors – Committee Charters and other Corporate Governance Materials.”

Item 11. Executive Compensation.

The information required by this Item is incorporated by reference to information set forth in our definitive proxy statement under the heading “Executive Compensation and Other Matters.”

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by this Item is incorporated by reference to information set forth in our definitive proxy statement under the heading “Stock Ownership of Certain Beneficial Owners and Management.”

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by this Item is incorporated by reference to information set forth in our definitive proxy statement under the heading “Certain Relationships and Related Transactions, and Director Independence.”

Item 14. Principal Accountant Fees and Services.

The information required by this Item is incorporated by reference to information set forth in our definitive proxy statement under the heading “Principal Accountant Fees and Services.”

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a) The following documents are filed as part of this Form:

1. Financial Statements:

| | Page |
|---|------|
| Report of Independent Registered Public Accounting Firm | F-2 |
| Consolidated Balance Sheets | F-3 |
| Consolidated Statements of Operations | F-4 |
| Consolidated Statements of Comprehensive Income (Loss) | F-5 |
| Consolidated Statements of Stockholders' Equity | F-6 |
| Consolidated Statements of Cash Flows | F-7 |
| Notes to Consolidated Financial Statements | F-8 |

2. Financial Statement Schedules:

The following financial statement schedule of Internet Patents Corporation for the years ended December 31, 2012 and 2011 is filed as part of this report and should be read in conjunction with the consolidated financial statements of Internet Patents Corporation.

Schedule II—Valuation and Qualifying Accounts

Other schedules have been omitted because the required information is not present or not present in amounts sufficient to require submission of the schedules or because the information required is included in the consolidated financial statements or notes thereto.

3. Exhibits:

See Index to Exhibits. The Exhibits listed in the accompanying Index are filed as part of this report.

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, on March 13, 2013.

INTERNET PATENTS CORPORATION

By: /s/ HUSSEIN A. ENAN
Hussein A. Enan
Chairman of the Board and Chief Executive Officer

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

| Signature | Title | Date |
|---|--|-------------------|
| /s/ HUSSEIN A. ENAN Hussein A. Enan | Chairman of the Board and Chief Executive Officer | March 13, 2013 |
| /s/ STEVEN J. YASUDA Steven J. Yasuda | Chief Financial Officer and Chief Accounting Officer (Principal Accounting Officer) | March 13, 2013 |
| /s/ JAMES M. CORROON James M. Corroon | Vice Chairman of the Board | March 13, 2013 |
| /s/ DENNIS H. CHOOKASZIAN Dennis H. Chookaszian | Director | March 13, 2013 |
| /s/ THOMAS W. ORR Thomas W. Orr | Director | March 13, 2013 |

INTERNET PATENTS CORPORATION

EXHIBITS TO FORM 10-K ANNUAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2012

| Exhibit Number | Description of Document |
|-------------------|--|
| 2.1 | Asset Purchase Agreement between the Company and Bankrate, Inc. dated as of October 10, 2011 (Incorporated by reference herein to exhibit 2.1 to the Company's Current Report on Form 8-K as filed with the SEC on October 12, 2011). |
| 3.1 | Fifth Restated Certificate of Incorporation of the Company (Incorporated by reference herein to exhibit 3.1 to the Company's Registration Statement on Form S-1 (File No. 333-78095), as amended, as filed with the SEC on July 22, 1999). |
| 3.2 | Certificate of Amendment of Restated Certificate of Incorporation of the Company (Incorporated by reference herein to exhibit 3.1 to the Company's Current Report on Form 8-K as filed with the SEC on December 28, 2011). |
| 3.3 | Certificate of Amendment of Restated Certificate of Incorporation of the Company dated March 11, 2013, attached herewith. |
| 3.4 | Certificate of Amendment of Restated Certificate of Incorporation of the Company dated March 12, 2013, attached herewith. |
| 3.5 | Bylaws of the Company (Incorporated by reference herein to exhibit 3.2 to Company's Registration Statement on Form S-1 (File No. 333-78095), as amended, as filed with the SEC on July 22, 1999). |
| 3.6 | Amendment to Article X of the Bylaws of the Company, adopted by the Board of Directors on February 2, 2011 (Incorporated by reference herein to exhibit 3.1 to the Company's Current Report on Form 8-K as filed with the SEC on February 7, 2011). |
| 3.7 | Certificate of Designation of Series A Junior Participating Preferred Stock of the Company, dated November 23, 2011 (Incorporated by reference herein to exhibit 3.1 of the Company's Registration Statement on Form 8-A as filed with the SEC on November 25, 2011). |
| 4.1 | Rights Agreement, dated as of November 23, 2011, by and between the Company and American Stock Transfer & Trust Company, LLC, as rights agent (Incorporated by reference herein to exhibit 4.1 of the Company's Form 8-A as filed with the SEC on November 25, 2011). |
| 10.1* | Form of Indemnification Agreement between the Company and the Company's directors and officers. (Incorporated by reference herein to exhibit 10.1 to the Company's Registration Statement on Form S-1 (File No. 333-78095), as amended, as filed with the SEC on July 22, 1999). |
| 10.2* | 1997 Stock Option Plan (Incorporated by reference herein to exhibit 10.2 to the Company's Registration Statement on Form S-1 (File No. 333-78095), as amended, as filed with the SEC on July 22, 1999). |

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- 10.3* 1999 Employee Stock Purchase Plan (Incorporated by reference herein to exhibit 3.1 to the Company's Registration Statement on Form S-1 (File No. 333-78095), as amended, as filed with the SEC on July 22, 1999).
- 10.4* 2008 Stock Option Plan (Incorporated by reference herein to the Company's Proxy Statement on Schedule 14A as filed with the SEC on February 15, 2008).
- 10.5* Executive Retention and Severance Plan Amended and Restated as of December 22, 2008 (Incorporated by reference herein to exhibit 10.16 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008 as filed with the SEC on March 31, 2009).

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- 10.6 Stock Purchase Agreement by and between the Company, Potrero Media Corporation, and Richard A. Natsch and Heather Natsch dated August 31, 2010 (Incorporated by reference herein to exhibit 99.1 to the Company's Current Report on Form 8-K as filed with the SEC on September 7, 2010).
- 10.7 Amendment No. 2 to the Stock Purchase Agreement by and between the Company, Potrero Media Corporation, and Richard A. Natsch and Heather Natsch dated September 29, 2010 (Incorporated by reference herein to exhibit 99.1 to the Company's Current Report on Form 8-K as filed with the SEC on October 5, 2010).
- 10.8 Amendment No. 3 to the Stock Purchase Agreement by and between the Company, Potrero Media Corporation, and Richard A. Natsch and Heather Natsch dated May 2, 2011 (Incorporated by reference herein to exhibit 10.25 to the Company's Current Report on Form 8-K as filed with the SEC on May 2, 2011).
- 10.9 Office Lease by and between MSCP Capital Center Investors, LLC, as Landlord, and the Company, as Tenant, dated December 10, 2010 (Incorporated by reference herein to exhibit 99.1 to the Company's Current report on Form 8-K as filed with the SEC on December 28, 2010).
- 10.10 First Lease Amendment by and between MSCP Capital Center Investors, LLC, as Landlord, and the Company, as Tenant, dated December 22, 2011 (Incorporated by reference herein to exhibit 10.26 to the Company's Current report on Form 8-K as filed with the SEC on December 28, 2011).
- 14.1 Internet Patents Corporation Code of Business Conduct and Ethics (Incorporated by reference herein to exhibit 14.1 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003 as filed with the SEC on March 29, 2004).
- 21.1 Subsidiaries of Company. ü
- 23.1 Consent of Independent Registered Public Accounting Firm. ü
- 31.1 Certification of Chief Executive Officer, pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended. ü
- 31.2 Certification of Chief Financial Officer, pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended. ü
- 32.1 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350. ü
- 101 Extensible Business Reporting Language (XBRL)**

ü Included in this filing.

* Constitutes a management contract or a compensatory plan or arrangement.

** XBRL information is furnished and not filed as a part of a registration statement or prospectus for purposes of Section 11 or 12 of the Securities and Exchange Act of 1933, is deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, and otherwise is not subject to

liability under these sections..

INTERNET PATENTS CORPORATION

SCHEDULE II
VALUATION AND QUALIFYING ACCOUNTS
Years ended December 31, 2012 and 2011

| Description | Balance at Beginning of Period | Charged to Costs and Expenses | Charged to Other Accounts | Deductions | Balance at End of Period |
|--------------------------------------|--------------------------------------|-------------------------------------|---------------------------------|------------|--------------------------------|
| Year ended December 31, 2012: | | | | | |
| Allowance for doubtful accounts | \$ — | —\$ | —\$ | —\$ | —\$ |
| Year ended December 31, 2011: | | | | | |
| Allowance for doubtful accounts | \$ 6,475 | \$ — | —\$ | (6,475) | \$ — |