Internet Patents Corp
Form 10-Q
May 11, 2012

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2012

Or

o 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 (IRS Employer Identification Number)

10850 Gold Center Drive, Suite 250B Rancho Cordova, CA 95670
(Address of principal executive offices)

(916) 853-1529
(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Sections 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 x No o

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 o	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company x

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, 2011), as reported on the Nasdaq Capital Market, was approximately $20,112,000. 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.

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

The number of outstanding shares of the Registrant's Common Stock, par value $0.001 per share, on April 30, 2012 were 7,751,952 shares.

FORM 10-Q
INTERNET PATENTS CORPORATION CORPORATION
INDEX

PART I: FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

INTERNET PATENTS CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)
(unaudited)

	March 31, 2012	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	$32,321	$70,326
Short-term investments	1,225	1,225
Restricted short-term investments	1,000	-
Prepaid expenses and other current assets	1,413	1,374
Total current assets	35,959	72,925
Property and equipment, net	44	42
Other assets	27	1,027
Total assets	$36,030	$73,994
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$482	$3,385
Accrued expenses and other current liabilities	347	541
Income tax payable	-	644
Total current liabilities	829	4,570
Income tax liability	101	101
Total liabilities	930	4,671
Commitments and contingencies		
Stockholders' equity:		
Common stock	11	10
Paid-in capital	221,726	216,401
Treasury stock	(6,788)	(6,589)
Accumulated deficit	(179,848)	(140,499)
Accumulated other comprehensive loss	(1)	-
Total stockholders' equity	35,100	69,323
Total liabilities and stockholders' equity	$36,030	$73,994

See accompanying notes.

INTERNET PATENTS CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)
(unaudited)

	Three Months Ended March 31, 2012	2011
Revenues:		
Total revenues	-	-
Operating expenses:		
Sales and marketing	-	-
Technology	-	24
General and administrative	837	888
Total operating expenses	837	912
Loss from operations	(837)	(912)
Other income	100	5
Loss from continuing operations	(737)	(907)
Discontinued operations, net of tax		
Income from discontinued operations	-	1,205
Total discontinued operations	-	1,205
Net income (loss)	$(737)	$298
Net income (loss) per share:		
Basic and diluted		
Loss from continuing operations	$(0.10)	$(0.16)
Discontinued operations, net of tax	$-	$0.22
Net income (loss) per basic common share	$(0.10)	$0.06
Shares used in computing income (loss) per share:		
Basic and diluted	7,379	5,523

See accompanying notes.

INTERNET PATENTS CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands)
(unaudited)

	Three Months Ended March 31,	
	2012	2011
Net income (loss)	$(737)	$298
Other comprehensive loss:		
Unrealized loss on available-for-sale securities	(1)	-
Other comprehensive loss before tax	(1)	-
Income tax benefit (expense) related to comprehensive income	-	-
Other comprehensive loss, net of tax	(1)	-
Comprehensive income (loss)	$(738)	$298

See accompanying notes.

INTERNET PATENTS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)
(unaudited)

	Three Months Ended March 31, 2012	2011
Cash flows from operating activities:		
Net income (loss)	$(737)	$298
Less income from discontinued operations, net of tax	-	(1,205)
Loss from continuing operations	(737)	(907)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	4	13
Interest income on short-term investments	-	(2)
Net changes in operating assets and liabilities:		
Prepaid expenses and other current assets	(39)	294
Other assets	1,000	-
Accounts payable	(2,903)	97
Accrued expenses and other current liabilities	(194)	25
Income taxes payable	(644)	-
Other liabilities	-	80
Net cash used in continuing operations	(3,513)	(400)
Net cash provided by discontinued operations	-	779
Net cash provided by (used in) operating activities	(3,513)	379
Cash flows from investing activities:		
Purchases of short-term investments	(736)	(490)
Redemption of short-term investments	735	1,470
Purchases of restricted short-term investments	(1,000)	-
Purchases of property and equipment	(6)	-
Change in interest receivable	-	2
Net cash provided by (used in) continuing operations	(1,007)	982
Net cash used in discontinued operations	-	(38)
Net cash provided by (used in) investing activities	(1,007)	944
Cash flows from financing activities:		
Proceeds from issuance of common stock through stock plans	5,127	367
Distribution paid	(38,612)	-
Net cash provided by (used in) continuing operations	(33,485)	367
Net cash provided by (used in) discontinued operations	-	-
Net cash provided by (used in) financing activities	(33,485)	367
Net increase (decrease) in cash and cash equivalents	(38,005)	1,690
Cash and cash equivalents, beginning of period	70,326	6,733
Cash and cash equivalents, end of period	$32,321	$8,423

See accompanying notes.

6

INTERNET PATENTS CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

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"). Accordingly, the financial results of IPC have been reported as discontinued operations for all periods presented in accordance with Accounting Standards Codification ("ASC") Topic 205, "Presentation of Financial Statements." The notes to condensed consolidated financial statements reflect historical amounts exclusive of discontinued operations, unless otherwise noted.

On the Disposition Date and in connection with the Disposition, the Company changed its name from InsWeb Corporation ("InsWeb") to Internet Patents Corporation ("IPC").

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.

2. Basis of Presentation

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

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 8-03 of Regulation S-X. Accordingly, they do not contain all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, the accompanying unaudited interim condensed consolidated financial statements reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly IPC's financial position as of March 31, 2012 and the results of operations for the three months ended March 31, 2012 and 2011 and of cash flows for the three months ended March 31, 2012 and 2011. The financial data and other information disclosed in these notes to the condensed consolidated financial statements related to these periods are unaudited. The results for the three months ended March 31, 2012 are not necessarily indicative of the results to be expected for any future period.

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in IPC's Annual Report on Form 10-K and other information as filed with the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations. The December 31, 2011 condensed consolidated balance sheet was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States. The Company believes the disclosures in its notes to the condensed consolidated financial statements are adequate to make the information presented not misleading. IPC has evaluated subsequent events through the time of filing these financial statements. Based upon the evaluation, there was no material impact on the accompanying condensed consolidated financial statements.

INTERNET PATENTS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

3. Fair Value Measurements

The following table presents the assets measured at fair value on a recurring basis as of March 31, 2012 and December 31, 2011 (in thousands):

	March 31, 2012	Level 1	Level 2	Level 3
Assets:				
Cash equivalents	$311	$311	$—	$—
Short-term investments	1,225	1,225	—	—
Restricted short-term investments	1,000	1,000		
Total assets at fair value	$2,536	$2,536	$—	$—

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

	December 31, 2011	Level 1	Level 2	Level 3
Assets:				
Cash equivalents	$310	$310	$—	$—
Short-term investments	1,225	1,225	—	—
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.

4. Restricted Short-Term Investments

As of March 31, 2012 and December 31, 2011, restricted short-term investments consisted of $1.0 million and $0 respectively in short-term investments. 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.

5. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist of the following (in thousands):

	March 31, 2012	December 31, 2011
Accrued employee compensation	$—	$239
Deferred rent	247	202

Other	100	100
	$347	$541

8

INTERNET PATENTS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

6. Disposition

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 discontinued operations 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 three months ended March 31, 2012 and 2011:

	2012	2011
Operating revenues	$-	$13,861
Operating expenses including depreciation and amortization	-	12,630
Income from operations	-	1,231
Other income (expense), net	-	(26)
Income from discontinued operations, net of tax	$-	$1,205

7. Net Income (loss) Per Share

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

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

	Three months ended March 31,	
(In thousands, except per share amounts)	2012	2011
Numerator for basic and diluted net income per share:		
Net income (loss) available to common stockholders	$(737)	$298
Denominator for net income (loss) per share:		
Basic and diluted —weighted average shares of common stock outstanding	7,379	5,523

Net income (loss)per share:		
Basic and diluted	$(0.10)	$0.06

Potentially dilutive securities are not included in the diluted net loss calculation, because the Company had a net loss for the three months ended March 31, 2012 and a net loss from continuing operations for the three months ended March 31, 2011.

INTERNET PATENTS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

7. Net Income (loss) Per Share (continued)

For the three months ended March 31, 2012, 13,529 shares issuable upon the assumed exercise of stock options are not included in the calculation of diluted earnings per share, as their inclusion would have been anti-dilutive.

For the three months ended March 31, 2011, 1,087,750 shares issuable upon the assumed exercise of stock options are not included in the calculation of diluted earnings per share, as their inclusion would have been anti-dilutive.

8. Commitments and Contingencies

Leases

IPC has a non-cancelable lease through February 14, 2017 for approximately, 16,000 square feet of office space in the Sacramento area which houses its corporate headquarters. IPC has two, consecutive options to extend the term for five years each at the prevailing market rent. A portion of the premises is currently subleased to Bankrate, Inc through December 21, 2012.

IPC also leases approximately 10,000 square feet of office space in San Francisco, California under a non-cancelable lease expiring in October 2014. A portion of the premises is sublet to an unrelated party for the remainder of IPC's lease term. The Company disposed of the operations of Potrero Media in conjunction with the Disposition.

Section 16(b) Lawsuit

On October 12, 2007, Vanessa Simmonds, a purported stockholder of IPC, filed a complaint in the United States District Court for the Western District of Washington, against IPC and two investment banking firms that served as underwriters for the initial public offering of our common stock in July 1999. The complaint alleges that: (i) the defendants, other underwriters of the offering, and unspecified officers, directors and principal stockholders of IPC constituted a "group" that owned in excess of 10% of IPC's outstanding common stock between July 23, 1999 and July 20, 2000; (ii) the defendants were therefore subject to the "short swing" prohibitions of Section 16(b) of the Securities Exchange Act of 1934; and (iii) the defendants engaged in purchases and sales, or sales and purchases, of IPC's common stock within periods of less than six months in violation of the provisions of Section 16(b). The complaint seeks disgorgement of all profits allegedly received by the defendants, with interest and attorneys' fees, for transactions in violation of Section 16(b). IPC, as the statutory beneficiary of any potential Section 16(b) recovery, is named as a nominal defendant in the complaint. A number of similar lawsuits against underwriters of other public offerings have recently been filed by the same plaintiff and law firm. On February 11, 2008, the court approved a stipulated order that IPC need not answer or otherwise respond to the complaint. On February 28, 2008, the plaintiff filed an amended complaint, and IPC was again excused from filing an answer. On March 12, 2009 the court issued an order dismissing the lawsuit with prejudice, but plaintiffs appealed this order to the Ninth Circuit Court of Appeal. On December 2, 2010, the Ninth Circuit determined that the plaintiff's demand letters sent to 30 defendant issuers were inadequate and affirmed the district court's dismissal of plaintiff's claim as to those defendants. The Ninth Court remanded another 24 cases, including IPC's case, with instructions that the District Court permit the underwriters and issuers to file motions challenging the adequacy of the demand letters in those cases. The Ninth Circuit made clear to the District Court that the Ninth Circuit expects the District Court to dismiss claims as to issuers, such as IPC, that received demand letters similar to the letters that were found to be inadequate. But the Ninth Circuit also reversed the District Court's decision that the statute of limitations had run on claims of certain issuers, including IPC, which may leave open the possibility that plaintiff could send new demand letters. The underwriters petitioned the US Supreme Court to review the Ninth Circuit's decision as to the statute of limitations. On March 26, 2012, the U.S. Supreme Court held that the statute of limitations for Section 16(b) actions is triggered from the date the alleged profit is realized and not when a Section 16(a) statement is filed. However, the Court remanded the case to the Ninth Circuit for a determination whether the rules of equitable tolling applied to the facts of these cases, including IPC's case. If the lawsuit is reinstated , IPC intends to defend the lawsuit vigorously. The litigation and settlement process is inherently uncertain and management cannot predict the outcome, though, if unfavorable, it could have a material adverse effect on IPC's financial condition, results of operations and cash flows.

INTERNET PATENTS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

9. Options and Equity

In January 2012, one of the Company's Board members exercised 42,416 options at exercise prices between $4.74 and $5.25 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 price 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 sheets.

As of March 31, 2012, 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 Disposition Date, in accordance to with the IPC Stock Option and Executive Plans. During the three months ended March 31, 2012 and 2011 there were common share issuances of 1,169,985 and 126,798 respectively, associated with the exercise of stock options.

10. Litigation Settlement

In February 2012, a one-time payment of $99,000 was received by IPC following the settlement of commercial litigation with a former employee. The litigation settlement was recorded as other income.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Quarterly Report on Form 10-Q, and in particular Management's Discussion and Analysis of Financial Condition and Results of Operations, contains "forward-looking statements" with respect to IPC's future financial performance. The words or phrases "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," and similar expressions are generally intended to identify forward-looking statements. Such forward-looking statements are subject to various known and unknown risks and uncertainties, and IPC cautions you that any forward-looking information provided by, or on behalf of, IPC is not a guarantee of future performance. Actual results could differ materially from those anticipated in such forward-looking statements due to a number of factors, some of which are beyond IPC's control, including, but not limited to, the unpredictable nature of patent licensing and patent litigation; potential changes in the laws and regulations relating to patents and patent litigation; the risk that we are not currently engaged in the patent licensing business, and our patent portfolio has never generated revenues; future changes we may make in our patent licensing strategy; changes in the taxation of income due to the disallowance or expiration of the Company's net operating losses ; and litigation in which IPC is a party. These risks and uncertainties, as well as other risks and uncertainties, which are described in greater detail in IPC's Annual Report on Form 10-K for the year ended December 31, 2011 and other documents filed with the Securities and Exchange Commission, could cause IPC's actual results to differ materially from historical results or those currently anticipated. All forward-looking statements are based on information available to IPC on the date hereof, and IPC assumes no obligation to update such statements.

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.

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 does not anticipate receiving any revenues in 2012. 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 expect that we will not be profitable in 2012.

The sale of assets to Bankrate, Inc. resulted in aggregate cash proceeds of $63.8 million to IPC. 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. However, pursuant to the terms of the Asset Purchase Agreement, Bankrate is 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 expects to receive from Bankrate in 2012 for these accounts receivable is approximately $14,000.

Results of Operations

Reclassifications

Certain amounts in our 2011 consolidated financial statements have been reclassified to conform to the presentation of our 2012 consolidated financial statements, relating to the effects of reclassifications of our insurance and lead generation business as discontinued operations. 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.

Operating Expenses

(in thousands, except percentages)	Three months ended March 31, 2012	2011	Percentage change from prior period
Operating expenses:			
Technology	$ -	$ 24	
General and administrative	837	888	
Total operating expenses	$ 837	$ 912	(8) %

Technology. Technology expenses consist primarily of payroll and related expenses, including employee benefits. Technology expensese decreased to $0 for the three months ended March 31, 2012 from $24,000 for the comparable period in 2011, as full-time technology personnel is no longer necessary for IPC.

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 to $837,000 for the three months ended March 31, 2012 from $888,000 for the comparable period in 2011. The decrease was primarily due to a reduction in our rent and facilities expense following the relocation of the Company in April 2011. General and administrative expenses are expected to decrease slightly for the remainder of 2012 due to the reduction in headcount.

Other Income. Other income was $100,000 for the three months ended March 31, 2012 as compared to $5,000 in the comparable period in 2011. Substantially all of the Other Income for the current period consists of a one-time payment received by IPC following the settlement of commercial litigation, and a small amount consists of interest earned on IPC's investment portfolio of cash, cash equivalents and short-term investments. IPC expects that returns received from its investment portfolio in the near future will be negligible given current economic conditions in the United States.

Income Taxes. Internet Patents Corporation recognized no expense for, and did not receive a benefit from income taxes for the three months ended March 31, 2012 and 2011.

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.

Contingencies. As discussed in Part I, Item 1, "Financial Statements — Note 8 — Commitments and Contingencies."Notes to Consolidated Financial Statements of this report, IPC is a defendant in: a securities lawsuit alleging certain officers and directors and significant shareholders violated the short swing trading prohibition of Section 16(b) of the Securities Exchange Act. IPC cannot accurately predict the ultimate outcome of these matters at this time and therefore, cannot estimate the range of probable loss, if any, due to the inherent uncertainties of litigation. IPC believes it has meritorious defenses; however IPC cannot assure that it will prevail in any of these actions. An unfavorable outcome could have a material adverse effect on IPC's financial condition, results of operations and cash flows.

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 March 31, 2012 and March 31, 2011, IPC had unrecognized tax benefits of approximately $0.3 million and $0.3 million, respectively ($0.1million 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 March 31, 2012 of approximately $138.9 million and $83.5 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 $6.7 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 2012.

The carrying value of our deferred tax assets, which was approximately $50.6 million at March 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):

	Three months ended March 31,	
	2012	2011
Cash provided by (used in) operating activities		
Continuing operations	$(3,513)	$(400)
Discontinued operations	-	779
Cash provided by (used in) investing activities		
Continuing operations	(1,007)	982
Discontinued operations	-	(38)
Cash provided by (used in) financing activities		
Continuing operations	(33,485)	367
Discontinued operations	-	-

At March 31, 2012, IPC’s principal source of liquidity was $32.3 million in cash and cash equivalents and $1.2 million in short-term investments. IPC adheres to an investment policy with minimal market or settlement risk with its current holdings. There are no restrictions or limitations regarding access to the $32.3 million in cash and cash equivalents and $1.2 million in short-term investments. Since inception, IPC has financed its operations primarily through the sale of preferred and common stock.

For the three months ended March 31, 2012, net cash used in operating activities was $3.5 million, primarily consisting of our net loss adjusted for depreciation and amortization of property, equipment of $0.7 million and cash used of $3.7 million primarily due to payment of accounts payable, income taxes, and accrued expenses and liabilities. This was partially offset by cash provided by deposits and other assets of $1.0 million.

For the three months ended March 31, 2011, net cash provided by operating activities was $0.4 million, consisting of cash used in operations of $0.4 million and cash flows from discontinued operations of $0.8 million.

For the three months ended March 31, 2012, net cash used in investing activities was $1.0 million representing $0.7 million relating to the purchases of short term investments and $1.0 million in purchases of restricted short term investments, offset by the redemptions of short term investments of $0.7 million.

For the comparable three months ended March 31, 2011, net cash provided by investing activities was $0.9 million relating to redemption of short term investments of $1.5 million, offset by purchases of short term investments of $0.5 million and net cash used in discontinued operations of $38,000.

For the three months ended March 31, 2012, net cash used in financing activities was $33.5 million, consisting of an aggregate $38.6 million cash distribution paid to shareholders on March 9, 2012, offset by proceeds from employee stock plans of $5.1 million. For the three months ended March 31, 2011, net cash provided by financing activities was $0.4 million due to proceeds from employee stock plans.

IPC has a non-cancelable lease through February 14, 2017 for approximately 16,000 square feet of office space in the Sacramento area which houses its corporate headquarters. IPC has two, consecutive options to extend the term for five years each at the prevailing market rent. A portion of the premises is currently subleased to Bankrate, Inc. through December 21, 2012.

IPC also leases approximately 10,000 square feet of office space in San Francisco, California under a non-cancelable lease expiring in October 2014. A portion of the premises is sublet to an unrelated party for the remainder of IPC's lease term. The Company disposed of the operations of Potrero Media in conjunction with the Disposition.

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

Years ending December 31	Future minimum lease commitments
2012	229
2013	447
2014	425
2015	341
2016	350
Thereafter	58
	$ 1,850

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.

ITEM 4. CONTROLS AND PROCEDURES

(a) 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) promulgated under the Securities Exchange Act of 1934, as amended. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this quarterly report.

(b) There has been no change in our internal control over financial reporting during the three months ended March 31, 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II: OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See Part I, Item 1, “Financial Statements — Note 8 — Commitments and Contingencies.”

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 2010 and 2011. Going forward, we intend to generate revenues solely 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 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 reduce our overhead costs to reflect the revenues we may receive from the new Patent Licensing Business 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. As noted above, however, 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.

In connection with patent enforcement actions , a court may rule that we have violated certain statutory, regulatory, federal, local or governing rules or standards, which may expose us to certain material liabilities.

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

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.

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, Chief Executive Officer and Chief Financial 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 23, 2011, our Board of Directors adopted a Section 382 Rights Agreement and declared a dividend distribution consisting of one right (a “Right”) for each outstanding share of the Company’s common stock to stockholders of record at the close of business on December 5, 2011. The Company’s Board of Directors adopted the Rights Agreement primarily in an effort to protect stockholder value by attempting to protect against a possible limitation on the Company’s ability to use its net operating loss carryforwards (the “NOLs”) and certain other tax benefits to reduce potential future U.S. federal income tax obligations. The Rights Agreement is intended to act as a deterrent 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 6. EXHIBITS

Exhibit Number	Description of Document
31.1	Certification of Chief Executive Officer, pursuant to Exchange Act Rule 13a-14(a).
32	Certification of Chief Executive Officer and Chief Financial Officer, pursuant to 18 U.S.C. Section 1350.
101.INS*	XBRL Instance
101.SCH*	XBRL Taxonomy Extension Schema
101.CAL*	XBRL Taxonomy Extension Calculation
101.DEF*	XBRL Taxonomy Extension Definition
101.LAB*	XBRL Taxonomy Extension Labels
101.PRE*	XBRL Taxonomy Extension Presentation

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

SIGNATURE

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

Dated: May 11, 2012	INTERNET PATENTS CORPORATION CORPORATION (Registrant)
	/s/ STEVEN J. YASUDA Steven J. Yasuda Chief Accounting Officer