Internet Patents Corp
Form 10-Q
August 05, 2014

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2014

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	**94-3220749**
(State or other jurisdiction of	(IRS Employer
incorporation or organization)	Identification Number)

101 Parkshore Drive, Suite 100 Folsom, CA 95630
(Address of principal executive offices)

(916) 932-2860
(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 No

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 (Do not check if a smaller reporting company)	Smaller reporting company

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, 2014), as reported on the Nasdaq Capital Market, was approximately $13,633,000. 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 No

The number of outstanding shares of the Registrant's Common Stock, par value $0.001 per share, on July 31, 2014 were 7,751,952 shares.

FORM 10-Q

INTERNET PATENTS CORPORATION

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PART I: FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

INTERNET PATENTS CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)

(unaudited)

	June 30, 2014	**December 31, 2013**
Assets		
Current assets:		
Cash and cash equivalents	$27,969	$30,113
Short-term investments	1,493	249
Restricted cash equivalents	800	1,000
Prepaid expenses and other current assets	168	144
Total current assets	30,430	31,506
Property and equipment, net	-	1
Other assets	29	29
Total assets	$30,459	$31,536
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$131	$220
Accrued expenses	229	253
Total current liabilities	360	473
Accrued lease obligation, noncurrent	348	444
Income tax liability	101	101
Other liabilities	45	45
Total liabilities	854	1,063
Commitments and contingencies		
Stockholders' equity:		

Common stock	11	11
Paid-in capital	221,750	221,750
Treasury stock	(6,788)	(6,788)
Unrealized loss on available-for-sale securities	(1)	-
Accumulated deficit	(185,367)	(184,500)
Total stockholders’ equity	29,605	30,473
Total liabilities and stockholders’ equity	$30,459	$31,536

See accompanying notes.

INTERNET PATENTS CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

(unaudited)

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2014	**2013**	**2014**	**2013**
Revenues	$-	$-	$-	$-
Operating expenses:				
General and administrative	439	1,157	882	1,613
Total operating expenses	439	1,157	882	1,613
Loss from operations	(439)	(1,157)	(882)	(1,613)
Other income, expense, net	7	5	15	10
Net loss before income taxes	(432)	(1,152)	(867)	(1,603)
Income tax provision	-	-	-	-
Net loss	(432)	(1,152)	(867)	(1,603)
Net loss per share:				
Basic and diluted	$(0.05)	$(0.15)	$(0.11)	$(0.21)
Shares used in computing per share amounts				
Basic and diluted	7,752	7,752	7,752	7,752

See accompanying notes.

INTERNET PATENTS CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(in thousands)

(unaudited)

	Three months ended June 30,		**Six months ended June 30,**	
	2014	**2013**	**2014**	**2013**
Net loss	$(432)	$(1,152)	$(867)	$(1,603)
Other comprehensive loss:				
Unrealized loss on available-for-sale securities	(1)	-	(1)	(1)
Other comprehensive loss before tax	(1)	-	(1)	(1)
Income tax provision related to comprehensive income	-	-	-	-
Other comprehensive loss, net of tax	(1)	-	(1)	(1)
Comprehensive loss	$(433)	(1,152)	$(868)	$(1,604)

See accompanying notes.

INTERNET PATENTS CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Six Months Ended June 30, 2014	2013
Cash flows from operating activities:		
Net loss	$(867)	$(1,603)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1	9
Impairment of long-lived assets	-	14
Loss on disposal of equipment	-	3
Loss on sub-lease	-	731
Net changes in operating assets and liabilities:		
Prepaid expenses and other current assets	(24)	(39)
Other assets	-	(2)
Accounts payable	(89)	(22)
Accrued expenses and other current liabilities	(120)	(263)
Other liabilities	-	45
Net cash used in operating activities	(1,099)	(1,127)
Cash flows from investing activities:		
Purchases of short-term investments	(2,490)	(1,494)
Redemption of short-term investments	1,245	1,745
Purchases of restricted cash equivalents and short-term investments	-	(1,000)
Redemption of restricted short-term investments	200	1,000
Change in interest receivable	-	1
Net cash provided by (used in) investing activities	(1,045)	252
Net decrease in cash and cash equivalents	(2,144)	(875)
Cash and cash equivalents, beginning of period	30,113	31,068
Cash and cash equivalents, end of period	$27,969	$30,193

See accompanying notes.

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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 101 Parkshore Drive, Suite 100, Folsom, CA 95630, and the telephone number at that location is (916) 932-2860. The principal IPC website is *www.internetpatentscorporation.net*.

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

Since the Disposition Date, IPC's business consists solely of plans to license and otherwise enforce its portfolio of seven e-commerce patents ("Patent Licensing Business"). From its original incorporation, IPC was among the earliest companies operating exclusively online, and we employed a significant number 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, and patent applications, that we believe apply to many e-commerce activities, including:

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

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

INTERNET PATENTS CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

2. 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.

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 June 30, 2014 and the results of operations for the three and six months ended June 30, 2014 and 2013 and of cash flows for the six months ended June 30, 2014 and 2013. 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 and six months ended June 30, 2014 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, 2013 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.

3. Fair Value Measurements

The following table presents the assets measured at fair value on a recurring basis as of June 30, 2014 (in thousands):

	June 30, 2014	**Level 1**	**Level 2**	**Level 3**
Assets:				
Cash equivalents	$27,585	$27,585	$ —	$ —
Short-term investments	1,493	1,493	—	—
Restricted cash equivalents	800	800		
Total assets at fair value	$29,878	$29,878	$ —	$ —

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INTERNET PATENTS CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

3. Fair Value Measurements (continued)

The following table presents the assets measured at fair value on a recurring basis as of December 31, 2013 (in thousands):

	December 31, 2013	Level 1	Level 2	Level 3
Assets:				
Cash equivalents	$ 29,315	$ 29,315	$ —	$ —
Short-term investments	249	249		
Restricted cash equivalents	1,000	1,000	—	—
Total assets at fair value	$ 30,564	$ 30,564	$ —	$ —

Cash equivalents, short-term investments and restricted cash equivalents include certificates of deposit, money market deposit accounts and money market funds. The carrying value of these cash equivalents, short-term investments and restricted cash equivalents 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 Cash Equivalents and Short-Term Investments

A portion of the cash equivalents and short-term investments are used as collateral for a letter of credit of the same amount which secures the Company's remaining obligations under the office space lease for IPC's former corporate headquarters. As of June 30, 2014 and December 31, 2013, the portions used as collateral consisted of $0.8 million and $1.0 million each, respectively.

5. Accrued Expenses and Other Current Liabilities

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

	June 30, 2014	December 31, 2013
Accrued lease obligations	$205	$ 229
Other	24	24
	$229	$ 253

For the quarter ended June 30, 2013, IPC recorded a net charge of $606,000 to record an accrual for its continuing lease obligations relating to IPC's former headquarters in Rancho Cordova, California. During the quarter ended June 30, 2013, IPC discontinued using this facility and subleased the entire premises to an unrelated business for the remainder of IPC's lease term. In evaluating our continuing lease obligations for this facility, 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-lessee, the Company recorded a charge of $606,000 in the quarter ended June 30, 2013, representing the difference between IPC's lease obligations and broker fees associated with this facility and the sub-lease income it expects to receive through February 2017, the expiration of our leasehold interest. Also included in the charge is an impaired asset for leasehold improvements of $14,000. The charge was offset by the unamortized portion of deferred rent, as rent expense was recognized on a straight-line base over the life of the lease. The Company recorded this charge in the statement of operations in general and administrative expenses. If this estimate or the related assumptions change in the future, IPC may be required to record a charge to increase its existing accrual.

INTERNET PATENTS CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

6. Net Loss Per Share

Basic net loss per share is computed using the weighted-average number of shares of common stock outstanding. Diluted net loss 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 loss per share of common stock *(In thousands, except per share amounts)*:

	Three months ended		**Six months ended**	
	June 30,		**June 30,**	
	2014	**2013**	**2014**	**2013**
Numerator for basic and diluted net loss per share:				
Net loss available to common stockholders	$(432)	$(1,152)	$(867)	$(1,603)
Denominator for net loss per share:				
Basic and diluted —weighted average shares of common stock outstanding	7,752	7,752	7,752	7,752
Net loss per share:				
Basic and diluted	$(0.05)	$(0.15)	$(0.11)	$(0.21)

Potentially dilutive securities are not included in the diluted net loss calculation, because their inclusion would have been anti-dilutive given the Company’s net loss for the three and six months ended June 30, 2014 and 2013.

For the three and six months ended June 30, 2014, there were no 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 and six months ended June 30, 2013, 519 and 625 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.

INTERNET PATENTS CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

7. Commitments and Contingencies

Leases

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

IPC has a non-cancelable 5-year full-service lease through February 14, 2017 for approximately 16,000 square feet of office space in a building that housed IPC's headquarters until May 2013. The facility is located in Rancho Cordova, California. The lease includes negotiated annual increases in the monthly rental payments. On April 16, 2013, IPC subleased this space for the remainder of IPC's term. The monthly sublease rent is less than IPC's rent obligation to the landlord. As of June 30, 2014, IPC is expected to receive $363,000 from the sub-lessee for the remainder of IPC's lease.

IPC also leases approximately 10,000 square feet of office space in San Francisco, California under a lease expiring in September 2014. This facility is currently fully subleased to two tenants. As of June 30, 2014, IPC is expected to receive $26,000 from the two sub-lessees during the remainder of IPC's lease.

8. Options and Equity

As of June 30, 2014, 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 with the IPC Stock Option and Executive Plans. All subsequent grants have been fully vested on the date of issuance. During the three and six months ended June 30, 2014 and 2013 there were no common share issuances associated with the exercise of stock options.

9. Subsequent Event

In May 2003, the 1997 Stock Option Plan was amended, with stockholder approval, to provide that each non-employee 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. This amendment was also included in the 2008 Stock Option Plan (the "Option Plan"). Pursuant to the Option Plan, on July 1, 2014 fully-vested options to purchase 5,000 shares of common stock were granted to each of the three non-employee directors with an exercise price of $3.15.

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, 2013 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

IPC's business consists solely of plans to license and otherwise enforce its portfolio of seven e-commerce patents ("Patent Licensing Business"). From its original incorporation, IPC was among the earliest companies operating exclusively online, and we employed a significant number 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, and patent applications, 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.

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. The appeals process, or reexaminations of our patents by the US Patent and Trademark Office, could result in further delays in receiving royalties or damage awards. For these reasons, IPC cannot estimate what revenues, if any, it will receive in 2014. In addition to general and administrative expenses, including salaries and benefits, rent and utilities, we will incur expenses associated with patent infringement litigation and being a public company. We cannot predict if we will generate revenues or be profitable in 2014.

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

In our suit against TellApart and eBags alleging infringement of the Event Log patent, the U.S. Patent and Trademark Office ("USPTO") granted the Defendants' petition for ex parte re-examination of the Event Log patent. The US District Court granted Defendants' motion to stay the litigation for the duration of the USPTO's re-examination. IPC is appealing Office Actions rejecting the claims to the USPTO Patent Appeals Board.

The four separate Dynamic Tabs cases we filed against the Active Network, the General, Quinstreet and Tree.com were reassigned to a single judge. On September 24, 2013, the court ruled that the Dynamic Tabs patent was invalid for lack of patent-eligible subject matter and granted a motion to dismiss filed by The General. The court later dismissed the cases against the other three defendants on the same basis. On October 23, 2013, IPC appealed the dismissal to the U.S. Court of Appeals for the Federal Circuit. Briefing in the appeal has concluded and oral argument is scheduled for August 6, 2014.

Results of Operations

Operating Expenses

(in thousands, except percentages)	Three months ended June 30, 2014	2013	Percentage change from prior period
General and administrative	$439	$1,157	(62 %)

(in thousands, except percentages)	Six months ended June 30, 2014	2013	Percentage change from prior period
General and administrative	$882	$1,613	(45 %)

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 $439,000 for the three months ended June 30, 2014 from $1,157,000 for the comparable period in 2013. The decrease was primarily due to a charge, described in Note 5, of $606,000 in the quarter ended June 30, 2013 to record an accrual for lease obligations relating to IPC's former headquarters in Rancho Cordova, California. A smaller portion of the decrease is due to reduced rent and legal services. General and administrative expenses decreased to $882,000 for the six months ended June 30, 2014 from $1,613,000 for the comparable period in 2013 for the reasons mentioned above. General and administrative expenses are expected to increase slightly for the remainder of 2014.

Other Income. Other Income was $7,000 and $15,000 for the three and six months ended June 30, 2014 as compared to $5,000 and $10,000 for the comparable periods in 2013. Other Income for the three and six months ended June 30, 2014 consists of interest earned on IPC's investment portfolio of cash, cash equivalents and short-term investments. IPC expects that Other Income will consist entirely of returns received from its investment portfolio in the near future, which will be negligible given the conservative nature of IPC's investment policy and the 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 and six months ended June 30, 2014 and 2013.

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.

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 June 30, 2014 and June 30, 2013, 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 June 30, 2014 of approximately $144.7 million and $29.1 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 2014, respectively.

The carrying value of our deferred tax assets, which was approximately $48.0 million at June 30, 2014, 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):

	Six months ended June 30,	
	2014	**2013**
Cash used in operating activities	$(1,099)	$(1,127)
Cash provided by (used in) investing activities	(1,045)	252
Cash used in financing activities	-	-

At June 30, 2014, IPC's principal source of liquidity was $28.0 million in cash and cash equivalents and $1.5 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 $28.0 million in cash and cash equivalents and $1.5 million in short-term investments. Since inception, IPC has financed its operations primarily through the sale of preferred and common stock and cash flow from operations.

For the six months ended June 30, 2014, net cash used in operating activities was $1.1 million, primarily consisting of our net loss adjusted for depreciation and amortization of property and equipment of $0.9 million and cash used of $0.2 million, primarily due to payment of accounts payable, accrued expenses and prepaid expenses.

For the six months ended June 30, 2013, net cash used in operating activities was $1.1 million, primarily consisting of our net loss adjusted for depreciation and amortization of property and equipment, impairment of long-lived assets and accrual for lease obligations of $1.6 million and cash used of $0.3 million, primarily due to decreases in accrued expenses, payment of accounts payable and an increase in prepaid expenses. This was partially offset by increases in the accrual of lease obligations and other liabilities of $0.8 million.

For the six months ended June 30, 2014, net cash used in investing activities was $1.0 million representing $2.5 million relating to the purchases of short-term investments, offset by redemptions of short-term investments of $1.2 million and redemptions of restricted cash equivalents of $0.2 million.

For the six months ended June 30, 2013, net cash provided by investing activities was $0.3 million representing $1.5 million relating to the purchases of short-term investments and $1.0 million relating to purchases of restricted cash equivalents, offset by redemptions of short-term investments of $1.7 million and redemptions of restricted short-term investments of $1.0 million.

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

IPC has a non-cancelable 5-year full service lease through February 14, 2017 for approximately 16,000 square feet of office space in the Sacramento area which housed IPC's corporate headquarters until May 2013. IPC has two, consecutive options to extend the term for five years each at the prevailing market rent. On April 16, 2013, IPC subleased this space for the remainder of IPC's term. The monthly sublease rent is less than IPC's rent obligation to the landlord. Throughout the term of the lease, there is a reduction in collateral required under this non-cancelable lease. Effective, March 1, 2014, the letter of credit collateral requirement was reduced from $1.0 million to $0.8 million for the Company's obligations under this non-cancelable lease. The collateral requirement will be reduced to $0.6 million, effective March 1, 2015 and $0.4 million, effective March 1, 2016. As of March 31, 2014 and December 31, 2013, restricted cash equivalents consisted of $0.8 million and $1.0 million each, respectively.

IPC also leases approximately 10,000 square feet of office space in San Francisco, California under a non-cancelable lease expiring in October 2014. This facility is currently fully subleased to two tenants for the remainder of IPC's lease term. See Note 7 of the condensed consolidated financial statements for further discussion of the subleases.

Future minimum lease commitments as of June 30, 2014 are summarized as follows (in thousands):

Years ending December 31	**Future minimum lease commitments**	
2014	$	121
2015		214
2016		214
Thereafter		35
	$	584

IPC currently anticipates that its cash and cash equivalents will be sufficient to meet its anticipated cash needs to fund operations 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 June 30, 2014 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

None

ITEM 1A. RISK FACTORS.

There have been no material changes with respect to the risk factors disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31,2013.

ITEM 6. EXHIBITS

Exhibit Number	**Description of Document**
31.1	Certification of Chief Executive Officer, pursuant to Exchange Act Rule 13a-14(a).
31.2	Certification of Chief Financial 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: August 5, 2014 **INTERNET PATENTS CORPORATION**
(Registrant)

/s/ STEVEN J. YASUDA
Steven J. Yasuda
Chief Financial Officer and Chief Accounting Officer