

BLUCORA, INC.  
Form 10-Q  
November 05, 2014  
Table of Contents

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 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 September 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: 000-25131

BLUCORA, INC.  
(Exact name of registrant as specified in its charter)

Delaware 91-1718107  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

10900 NE 8th Street, Suite 800 98004  
Bellevue, Washington  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (425) 201-6100

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.  Yes  No  
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  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 the 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

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

Edgar Filing: BLUCORA, INC. - Form 10-Q

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at October 30, 2014
Common Stock, Par Value \$0.0001	41,002,763

---

Table of Contents

BLUCORA, INC.

FORM 10-Q

TABLE OF CONTENTS

PART I—FINANCIAL INFORMATION

Item 1.	<u>Financial Statements</u>	<u>3</u>
	<u>Unaudited Condensed Consolidated Balance Sheets as of September 30, 2014 and December 31, 2013</u>	<u>3</u>
	<u>Unaudited Condensed Consolidated Statements of Comprehensive Income (Loss) for the Three and Nine Months ended September 30, 2014 and 2013</u>	<u>4</u>
	<u>Unaudited Condensed Consolidated Statements of Cash Flows for the Nine Months ended September 30, 2014 and 2013</u>	<u>5</u>
	<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	<u>6</u>
Item 2.	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>17</u>
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>34</u>
Item 4.	<u>Controls and Procedures</u>	<u>35</u>

PART II—OTHER INFORMATION

Item 1.	<u>Legal Proceedings</u>	<u>36</u>
Item 1A.	<u>Risk Factors</u>	<u>36</u>
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>54</u>
Item 3.	<u>Defaults Upon Senior Securities</u>	<u>54</u>
Item 4.	<u>Mine Safety Disclosures</u>	<u>54</u>
Item 5.	<u>Other Information</u>	<u>54</u>
Item 6.	<u>Exhibits</u>	<u>54</u>
	<u>Signatures</u>	<u>55</u>

---

Table of Contents

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## BLUCORA, INC.

## UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)

	September 30, 2014	December 31, 2013
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$60,194	\$130,225
Available-for-sale investments	220,200	203,480
Accounts receivable, net of allowance of \$62 and \$62	31,806	48,081
Other receivables	4,143	8,292
Inventories	27,759	28,826
Prepaid expenses and other current assets, net	8,967	9,774
Total current assets	353,069	428,678
Property and equipment, net	16,347	16,108
Goodwill	364,054	348,957
Other intangible assets, net	180,330	178,064
Other long-term assets	5,274	6,223
Total assets	\$919,074	\$978,030
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$42,886	\$61,268
Accrued expenses and other current liabilities	18,699	31,109
Deferred revenue	6,945	7,510
Short-term portion of long-term debt, net	7,917	7,903
Convertible senior notes, net	—	181,583
Total current liabilities	76,447	289,373
Long-term liabilities:		
Long-term debt, net	55,261	113,193
Convertible senior notes, net	184,254	—
Deferred tax liability, net	41,341	56,861
Deferred revenue	2,331	1,814
Other long-term liabilities	2,610	2,719
Total long-term liabilities	285,797	174,587
Total liabilities	362,244	463,960
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Common stock, par value, \$0.0001 - authorized, 900,000 shares; issued and outstanding, 40,977 and 42,083 shares	4	4
Additional paid-in capital	1,476,148	1,466,043
Accumulated deficit	(919,491)	(951,977)
Accumulated other comprehensive income	169	—
Total stockholders' equity	556,830	514,070
Total liabilities and stockholders' equity	\$919,074	\$978,030
See accompanying notes to Unaudited Condensed Consolidated Financial Statements.		



Table of Contents

## BLUCORA, INC.

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands, except per share data)

	Three months ended September		Nine months ended September	
	30,		30,	
	2014	2013	2014	2013
Revenues:				
Services revenue	\$76,885	\$109,491	\$362,199	\$392,010
Product revenue, net	37,970	14,630	110,408	14,630
Total revenues	114,855	124,121	472,607	406,640
Operating expenses:				
Cost of revenues:				
Services cost of revenue	49,754	72,935	177,280	219,274
Product cost of revenue	25,605	10,622	73,771	10,622
Total cost of revenues	75,359	83,557	251,051	229,896
Engineering and technology	5,970	2,905	14,922	7,951
Sales and marketing	18,152	18,230	96,275	71,409
General and administrative	9,495	8,421	28,552	21,362
Depreciation	1,085	697	3,278	1,738
Amortization of intangible assets	6,118	4,184	17,463	10,521
Total operating expenses	116,179	117,994	411,541	342,877
Operating income (loss)	(1,324	) 6,127	61,066	63,763
Other loss, net	(3,208	) (13,118	) (11,001	) (20,427
Income (loss) before income taxes	(4,532	) (6,991	) 50,065	43,336
Income tax benefit (expense)	2,294	510	(17,579	) (17,803
Net income (loss)	\$(2,238	) \$(6,481	) \$32,486	\$25,533
Net income (loss) per share:				
Basic	\$(0.05	) \$(0.16	) \$0.78	\$0.62
Diluted	\$(0.05	) \$(0.16	) \$0.75	\$0.60
Weighted average shares outstanding:				
Basic	41,034	41,088	41,589	41,048
Diluted	41,034	41,088	43,303	42,878
Other comprehensive income (loss):				
Net income (loss)	\$(2,238	) \$(6,481	) \$32,486	\$25,533
Unrealized gain (loss) on available-for-sale investments, net of tax	(1,917	) (23	) 173	13
Unrealized gain on derivative instrument, net of tax	—	57	—	266
Reclassification adjustment for realized gain on available-for-sale investments, net of tax, included in net income	(4	) —	(4	) (1
Other comprehensive income (loss)	(1,921	) 34	169	278
Comprehensive income (loss)	\$(4,159	) \$(6,447	) \$32,655	\$25,811

See accompanying notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents

BLUCORA, INC.

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Nine months ended September	
	30,	
	2014	2013
Operating Activities:		
Net income	\$32,486	\$25,533
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation	8,974	8,490
Depreciation and amortization of intangible assets	27,298	19,413
Excess tax benefits from stock-based award activity	(29,801	) (24,596
Deferred income taxes	(15,621	) (8,209
Amortization of premium on investments, net	3,095	2,154
Amortization of debt issuance costs	853	841
Accretion of debt discounts	2,753	1,972
Loss on debt extinguishment and modification expense	—	1,593
Loss on derivative instrument	—	5,931
Impairment loss on equity investment in privately-held company	—	3,711
Other	72	608
Cash provided (used) by changes in operating assets and liabilities:		
Accounts receivable	16,212	(8,756
Other receivables	4,134	1,090
Inventories	1,067	900
Prepaid expenses and other current assets	849	6,694
Other long-term assets	43	(2,296
Accounts payable	(18,382	) 1,873
Deferred revenue	(48	) 2,563
Accrued expenses and other current and long-term liabilities	17,174	27,176
Net cash provided by operating activities	51,158	66,685
Investing Activities:		
Business acquisitions, net of cash acquired	(44,927	) (180,500
Purchases of property and equipment	(4,247	) (3,066
Change in restricted cash	—	2,491
Equity investment in privately-held company	—	(4,000
Proceeds from sales of investments	26,620	25,812
Proceeds from maturities of investments	195,296	150,277
Purchases of investments	(237,063	) (234,771
Net cash used by investing activities	(64,321	) (243,757
Financing Activities:		
Proceeds from issuance of convertible notes, net of debt issuance costs of \$6,432	—	194,818
Proceeds from credit facilities	4,000	—
Repayment of credit facilities	(62,000	) (10,000
Debt issuance costs on credit facility	—	(28
Stock repurchases	(29,923	) (3,525
Excess tax benefits from stock-based award activity	29,801	24,596
Proceeds from stock option exercises	2,447	1,700
Proceeds from issuance of stock through employee stock purchase plan	1,376	1,065
Tax payments from shares withheld upon vesting of restricted stock units	(2,569	) (2,011

Edgar Filing: BLUCORA, INC. - Form 10-Q

Net cash provided (used) by financing activities	(56,868	) 206,615
Net increase (decrease) in cash and cash equivalents	(70,031	) 29,543
Cash and cash equivalents, beginning of period	130,225	68,278
Cash and cash equivalents, end of period	\$60,194	\$97,821
Supplemental disclosure of non-cash investing activities:		
Purchases of property and equipment through leasehold incentives	\$120	\$1,006
Cash paid for:		
Income taxes	\$2,536	\$1,637
Interest	\$6,336	\$6,512
See accompanying notes to Unaudited Condensed Consolidated Financial Statements.		

- 5 -

---



Table of Contents

BLUCORA, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1: The Company and Basis of Presentation

Description of the business: Blucora, Inc. (the “Company” or “Blucora”) operates three primary businesses: an internet search and content business, an online tax preparation business, and an e-commerce business. The Search and Content business, InfoSpace, provides search services to users of its owned and operated and distribution partners' web properties, as well as online content. The Tax Preparation business consists of the operations of TaxACT, Inc. (“TaxACT”) and provides online tax preparation service for individuals, tax preparation software for individuals and professional tax preparers, and ancillary services. The E-Commerce business consists of the operations of Monoprice, Inc. (“Monoprice”), which the Company acquired on August 22, 2013, and provides self-branded electronics and accessories to both consumers and businesses primarily through its website, www.monoprice.com.

On May 30, 2014, InfoSpace acquired the assets of HowStuffWorks (“HSW”), which constituted a business, pursuant to the terms of the Asset Purchase Agreement dated April 18, 2014. HSW provides online content through various websites, including www.HowStuffWorks.com. HSW generates revenue primarily through advertisements appearing on its websites.

Segments: The Company has three reportable segments: Search and Content (formerly known as Search), Tax Preparation, and E-Commerce. The Search and Content segment is the InfoSpace business, which now includes HSW, the Tax Preparation segment is the TaxACT business, and the E-Commerce segment is the Monoprice business. Unless the context indicates otherwise, the Company uses the term “Search and Content” to represent search and content services, the term “Tax Preparation” to represent services and software sold through the TaxACT business, and the term “E-Commerce” to represent products sold through the Monoprice business (see “Note 9: Segment Information”).

Principles of consolidation: The consolidated financial statements include the accounts of the Company and its subsidiaries. Intercompany accounts and transactions have been eliminated.

Reclassifications: Certain prior period amounts have been reclassified to conform to the current period presentation.

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses, and disclosure of contingencies. Estimates include those used for impairment of goodwill and other intangible assets, useful lives of other intangible assets, acquisition accounting, valuation of investments, valuation of the Warrant (see “Note 8: Stockholders’ Equity”) and interest rate swap derivatives, revenue recognition, the estimated allowance for sales returns and doubtful accounts, the estimated allowance for obsolete, slow moving, and nonsalable inventory, internally developed software, accrued contingencies, stock option valuation, and valuation allowance for deferred tax assets. Actual amounts may differ from estimates.

Seasonality: Blucora’s Tax Preparation segment is highly seasonal, with the significant majority of its annual revenue earned in the first four months of the Company’s fiscal year. During the third and fourth quarters, the Tax Preparation segment typically reports losses because revenue from the segment is minimal while core operating expenses continue at relatively consistent levels. Revenue from the E-Commerce segment also is seasonal, with revenues historically being the lowest in the second quarter, a period that does not include consumer back-to-school or holiday-related spending.

Note 2: Summary of Significant Accounting Policies

Interim financial information: The accompanying consolidated financial statements have been prepared by the Company under the rules and regulations of the Securities and Exchange Commission (the “SEC”) for interim financial reporting. These consolidated financial statements are unaudited and, in management’s opinion, include all adjustments, consisting of normal recurring adjustments and accruals, necessary for a fair presentation of the consolidated financial position, results of operations, and cash flows for the periods presented. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been omitted in accordance with the rules and regulations of the SEC. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes in Part II Item 8 of the Company’s Annual Report on Form 10-K for the year ended December 31, 2013. Interim results are not necessarily indicative of results for a full year.

Short-term investments: The Company principally invests its available cash in fixed income debt and marketable equity securities. Fixed income debt securities include investment-grade income securities, AAA-rated money market funds, and

- 6 -

---

Table of Contents

insured time deposits with commercial banks. Equity securities include common stock in a publicly traded company. Such investments are included in “Cash and cash equivalents” and “Available-for-sale investments” on the consolidated balance sheets and reported at fair value with unrealized gains and losses included in “Accumulated other comprehensive income” on the consolidated balance sheets. Amounts reclassified out of comprehensive income into net income are determined on the basis of specific identification.

The Company reviews the impairments of its available-for-sale investments and classifies the impairment of any individual available-for-sale investment as either temporary or other-than-temporary. The differentiating factors between temporary and other-than-temporary impairments are primarily the length of the time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

**Inventories:** Inventories, consisting of merchandise available for sale in the E-Commerce business, are accounted for using the first-in-first-out (“FIFO”) method of accounting and are valued at the lower of cost or market and include the related inbound shipping and handling costs. Inventory quantities on hand are reviewed regularly, and allowances are maintained for obsolete, slow moving, and nonsalable inventory.

**Business combinations and intangible assets including goodwill:** The Company accounts for business combinations using the acquisition method, and, accordingly, the identifiable assets acquired and liabilities assumed are recorded at their acquisition date fair values. Goodwill is calculated as the excess of the purchase price over the fair value of net assets, including the amount assigned to identifiable intangible assets. Identifiable intangible assets with finite lives are amortized over their useful lives on a straight-line basis, except for the installed code base technology which is amortized proportional to expected revenue. Acquisition-related costs, including advisory, legal, accounting, valuation, and other similar costs, are expensed in the periods in which the costs are incurred. The results of operations of acquired businesses are included in the consolidated financial statements from the acquisition date.

**Derivative instruments and hedging:** The Company recognized derivative instruments as either assets or liabilities at their fair value. The Company recorded changes in the fair value of the derivative instruments as gains or losses either in “Other loss, net” on the consolidated statements of comprehensive income, for those not designated as a hedging instrument (the Warrant – see “Note 8: Stockholders’ Equity”), or in “Accumulated other comprehensive income” on the consolidated balance sheets, for those used in a hedging relationship (the interest rate swap – see “Note 6: Debt”). The Warrant and interest rate swap were settled in the last half of 2013.

The change in the fair value of the Warrant resulted in losses of \$4.0 million and \$5.9 million for the three and nine months ended September 30, 2013, respectively.

The interest rate swap agreement was used for the purpose of minimizing exposure to changes in interest rates and was accounted for as a cash flow hedge. The hedge was perfectly effective through termination, and no ineffectiveness was recorded in the consolidated statements of comprehensive income.

**Fair value of financial instruments:** The Company measures its cash equivalents, available-for-sale investments, and derivative instruments at fair value. The Company considers the carrying values of accounts receivable, other receivables, inventories, prepaid expenses, other current assets, accounts payable, accrued expenses, and other current liabilities to approximate fair values primarily due to their short-term natures.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Marketable equity securities are classified within Level 1 of the fair value hierarchy because the Company values its marketable equity securities using quoted prices in active markets for identical securities. Cash equivalents and debt securities are classified within Level 2 of the fair value hierarchy because the Company values its cash equivalents and debt securities utilizing market observable inputs. The Company classified its interest rate swap derivative within Level 2 as the valuation inputs were based on quoted prices and market observable data of similar instruments. As previously discussed, the interest rate swap was terminated in 2013. The Company classified the Warrant derivative within Level 3, because it was valued using the Black-Scholes-Merton valuation model, which had significant unobservable inputs related to historical stock price volatility. This unobservable input reflected the Company’s assumptions, consistent with reasonably available assumptions made by other market participants. This valuation required significant judgment. As previously discussed, the Warrant was

settled in 2013.

Supplier concentration: A material part of Monoprice's business is dependent on two vendors. These unrelated vendors accounted for 15% and 18% of Monoprice's inventory purchases during the three and nine months ended September 30, 2014,

- 7 -

---

Table of Contents

respectively, and 19% of Monoprice's inventory purchases during the period from August 22, 2013 (the date which Monoprice was acquired) to September 30, 2013. As of September 30, 2014 and December 31, 2013, these unrelated vendors accounted for 21% and 20% of Monoprice's related accounts payable, respectively.

Recent accounting pronouncements: Changes to GAAP are established by the Financial Accounting Standards Board ("FASB") in the form of accounting standards updates ("ASUs") to the FASB's Accounting Standards Codification ("ASC"). The Company considers the applicability and impact of all recent ASUs. ASUs not listed below were assessed and determined to be either not applicable or are expected to have minimal impact on the Company's consolidated financial position and results of operations.

In May 2014, the FASB issued guidance codified in ASC 606, "Revenue from Contracts with Customers," which amends the guidance in former ASC 605 "Revenue Recognition." The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This will be achieved in a five-step process. Enhanced disclosures also will be required. This guidance is effective on a retrospective basis--either to each reporting period presented or with the cumulative effect of initially applying this guidance recognized at the date of initial application--for annual reporting periods, including interim reporting periods within those annual reporting periods, beginning after December 15, 2016. Earlier adoption is not permitted. The Company currently is evaluating the impact of this guidance on its consolidated financial statements.

In July 2013, the FASB issued guidance on the presentation of unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists at the reporting date. The Company adopted this guidance in the first quarter of 2014, and the adoption did not have a material impact on the Company's consolidated financial statements.

#### Note 3: Business Combinations

HSW: On May 30, 2014, InfoSpace acquired HSW, a provider of online content (see "Note 1: The Company and Basis of Presentation"), for \$44.9 million in cash, which was funded from available cash. The acquisition of HSW is strategic to InfoSpace and intended to expand its operations. HSW is included in the Search and Content segment. The identifiable net assets acquired amounted to approximately \$4.5 million, consisting primarily of marketable equity securities, and intangible assets acquired amounted to approximately \$25.4 million, consisting of \$18.2 million in content, \$1.3 million in proprietary technology, and \$5.9 million in trade names. The Company estimates the economic lives of the content and proprietary technology to be 10 years and 4 years, respectively, and the trade names are estimated to have indefinite lives. Goodwill amounted to \$15.1 million and is expected to be deductible for income tax purposes. Goodwill consists largely of the ability to attract new customers through utilization of current content and to develop new content post-acquisition, neither of which qualify for separate recognition. Pro forma results of operations have not been presented because the effects of this acquisition were not material to the Company's consolidated results of operations.

Balance Financial: On October 4, 2013, TaxACT acquired all of the equity of Balance Financial, Inc. ("Balance Financial"), a provider of web and mobile-based financial management software, for \$4.9 million in cash which includes a \$0.7 million escrow amount recorded in "Accrued expenses and other current liabilities" for indemnifications related to general representations and warranties. The escrow period expires on April 4, 2015, at which time the amount, net of any indemnifiable losses, will be released. The acquisition of the Balance Financial business is strategic to TaxACT and was funded from the revolving credit loan under the TaxACT 2013 credit facility. See "Note 6: Debt" for further discussion of the TaxACT 2013 credit facility. Balance Financial is included in the Tax Preparation segment. The identifiable net assets acquired amounted to \$1.0 million, consisting primarily of deferred tax assets, and intangible assets acquired amounted to \$0.8 million, consisting primarily of internally-developed software and customer relationships both of which have finite lives. Goodwill amounted to \$3.1 million. Pro forma results of operations have not been presented because the effects of this acquisition were not material to the Company's consolidated results of operations.

Monoprice: On August 22, 2013, the Company acquired all of the outstanding stock of Monoprice, an online provider of self-branded electronics and accessories for both consumers and businesses (see "Note 1: The Company and Basis of Presentation"). The Company paid \$182.9 million, which was funded from available cash, after a \$0.4 million working

capital adjustment in the fourth quarter of 2013. The acquisition was intended to diversify the Company's business model and expand its operations.

Valuations were as follows (in thousands):

- 8 -

---

Table of Contents

	Fair Value
Tangible assets acquired	\$49,714
Liabilities assumed	(23,623 )
Identifiable net assets acquired	\$26,091
Fair value adjustments to intangible assets:	
Customer relationships	\$30,900
Trade name	38,000
Fair value of intangible assets acquired	\$68,900
Purchase price:	
Cash paid	\$182,909
Less identifiable net assets acquired	(26,091 )
Plus deferred tax liability related to intangible assets	27,683
Less fair value of intangible assets acquired	(68,900 )
Excess of purchase price over net assets acquired, allocated to goodwill	\$115,601

The Company incurred acquisition costs of \$0.7 million in 2013, which were recognized in "General and administrative expense." The Company did not assume any equity awards or plans from Monoprice. Following the completion of the acquisition, the Company issued 27,152 options and 126,259 restricted stock units ("RSUs"), which are at levels consistent with other awards to Blucora subsidiary employees, and 243,750 performance-based RSUs to Monoprice's employees. In addition, the sellers of Monoprice are entitled to federal and state tax refunds related to pre-acquisition tax periods pursuant to the purchase agreement. During the three months ended September 30, 2014, the Company adjusted the refunds due to the sellers after finalizing Monoprice's 2013 federal and state tax returns. As a result, the Company recorded a \$0.7 million gain within "Other loss, net."

The Company's estimates of the economic lives of the acquired assets are 2 years for the business-to-consumer customer relationships, 7 years for the business-to-business customer relationships, approximately 6 years for the personal property assets, and the trade name is estimated to have an indefinite life. Goodwill consists largely of the ability to attract new customers and develop new technologies post-acquisition, which do not qualify for separate recognition. The Company does not expect that any of this goodwill will be deductible for income tax purposes. The gross contractual amount of trade accounts receivable acquired was \$3.2 million, all of which the Company has collected. The Company recorded deferred revenue at a fair value of \$1.3 million as of the acquisition date. Prior to the acquisition, Monoprice had recorded deferred revenue at \$2.0 million.

## Pro Forma Financial Information (unaudited)

The financial information in the table below summarizes the combined results of operations of Blucora and Monoprice on a pro forma basis for the three and nine months ended September 30, 2013, as though they had been combined as of the beginning of the periods presented. This pro forma financial information is presented for informational purposes only and is not necessarily indicative of the results of operations that would have been achieved had the acquisition occurred at the beginning of the periods presented. The pro forma condensed combined consolidated statements of operations for the three and nine months ended September 30, 2013 combines the historical results of operations of Blucora and the historical results of operations of Monoprice. The following amounts are in thousands:

	Three months ended September 30, 2013	Nine months ended September 30, 2013
Revenue	\$145,852	\$496,559
Net income (loss)	\$(6,017 )	\$26,771

## Note 4: Goodwill and Other Intangible Assets

The following table presents goodwill by reportable segment (in thousands):

Table of Contents

	Search and Content	Tax Preparation	E-Commerce	Total
Goodwill as of December 31, 2013	\$44,815	\$ 188,541	\$ 115,601	\$348,957
Addition	15,097	—	—	15,097
Goodwill as of September 30, 2014	\$59,912	\$ 188,541	\$ 115,601	\$364,054

The goodwill addition related to the acquisition of HSW as described in "Note 3: Business Combinations."

Intangible assets other than goodwill consisted of the following (in thousands):

	September 30, 2014			December 31, 2013		
	Gross carrying amount	Accumulated amortization	Net	Gross carrying amount	Accumulated amortization	Net
Definite-lived intangible assets:						
Customer relationships	\$ 132,500	\$(44,491)	\$ 88,009	\$ 132,500	\$(27,740)	\$ 104,760
Technology	44,805	(33,698)	11,107	43,535	(27,951)	15,584
Content	18,200	(606)	17,594	—	—	—
Other	6,705	(6,667)	38	6,705	(6,667)	38
Total definite-lived intangible assets	202,210	(85,462)	116,748	182,740	(62,358)	120,382
Indefinite-lived intangible assets:						
Trade names	63,399	—	63,399	57,499	—	57,499
Other	183	—	183	183	—	183
Total indefinite-lived intangible assets	63,582	—	63,582	57,682	—	57,682
Total	\$265,792	\$(85,462)	\$ 180,330	\$240,422	\$(62,358)	\$ 178,064

Amortization expense was as follows (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Statement of comprehensive income line item:				
Services cost of revenue	\$1,875	\$1,906	\$5,641	\$5,773
Amortization of intangible assets	6,118	4,184	17,463	10,521
Total	\$7,993	\$6,090	\$23,104	\$16,294

Expected amortization of definite-lived intangible assets held as of September 30, 2014 is presented in the table below (in thousands):

	2014	2015	2016	2017	2018	Thereafter	Total
Services cost of revenue	\$1,872	\$7,450	\$621	\$—	\$—	\$—	\$9,943
Amortization of intangible assets	6,118	21,880	17,206	17,155	16,970	27,476	106,805
Total	\$7,990	\$29,330	\$17,827	\$17,155	\$16,970	\$27,476	\$116,748

The weighted average amortization periods for definite-lived intangible assets are as follows: 61 months for customer relationships, 19 months for technology, 116 months for content, and 65 months for total definite-lived intangible assets.

#### Note 5: Fair Value Measurements

The fair value hierarchy of the Company's financial assets carried at fair value and measured on a recurring basis was as follows (in thousands):



Table of Contents

	September 30, 2014	Fair value measurements at the reporting date using		
		Quoted prices in active markets using identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash equivalents:				
Money market and other funds	\$ 14,012	\$—	\$14,012	\$—
Commercial paper	5,200	—	5,200	—
Time deposits	1,246	—	1,246	—
Corporate bonds	1,206	—	1,206	—
Taxable municipal bonds	5,675	—	5,675	—
Total cash equivalents	27,339	—	27,339	—
Available-for-sale investments:				
Debt securities:				
U.S. government securities	84,693	—	84,693	—
International government securities	6,619	—	6,619	—
Commercial paper	18,092	—	18,092	—
Time deposits	29,618	—	29,618	—
Corporate bonds	1,533	—	1,533	—
Taxable municipal bonds	75,054	—	75,054	—
Total debt securities	215,609	—	215,609	—
Equity securities	4,591	4,591	—	—
Total available-for-sale investments	220,200	4,591	215,609	—
Total assets at fair value	\$ 247,539	\$4,591	\$242,948	\$—

	December 31, 2013	Fair value measurements at the reporting date using		
		Quoted prices in active markets using identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash equivalents:				
U.S. government securities	\$ 6,400	\$—	\$6,400	\$—
Money market and other funds	9,391	—	9,391	—
Commercial paper	17,999	—	17,999	—
Time deposits	499	—	499	—
Taxable municipal bonds	21,215	—	21,215	—
Total cash equivalents	55,504	—	55,504	—
Available-for-sale investments:				
U.S. government securities	58,114	—	58,114	—
Commercial paper	14,496	—	14,496	—
Time deposits	9,880	—	9,880	—
Taxable municipal bonds	120,990	—	120,990	—
Total available-for-sale investments	203,480	—	203,480	—
Total assets at fair value	\$ 258,984	\$—	\$258,984	\$—

The Company also had financial instruments that were not measured at fair value. See "Note 6: Debt" for details.

The contractual maturities of the debt securities classified as available-for-sale at September 30, 2014 and December 31, 2013 were less than one year.

The cost and fair value of available-for-sale investments were as follows (in thousands):



Table of Contents

		Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available-for-sale investments as of	September 30, 2014				
Debt securities		\$215,607	\$ 26	\$ (24	) \$215,609
Equity securities		4,424	167	—	4,591
Total		\$220,031	\$ 193	\$ (24	) \$220,200
Available-for-sale investments as of	December 31, 2013	\$203,479	\$ 24	\$ (23	) \$203,480

Available-for-sale investments as of December 31, 2013 included only debt securities.

## Note 6: Debt

The Company's debt consisted of the following (in thousands):

	September 30, 2014			December 31, 2013		
	Principal amount	Unamortized discount	Net carrying value	Principal amount	Unamortized discount	Net carrying value
Monoprice 2013 credit facility	\$44,000	\$(206	) \$43,794	\$50,000	\$(288	) \$49,712
TaxACT 2013 credit facility	19,384	—	19,384	71,384	—	71,384
Convertible Senior Notes	201,250	(16,996	) 184,254	201,250	(19,667	) 181,583
Total debt	\$264,634	\$(17,202	) \$247,432	\$322,634	\$(19,955	) \$302,679

Monoprice 2013 credit facility: On November 22, 2013, Monoprice entered into an agreement with a syndicate of lenders for the purposes of post-transaction financing of the Monoprice acquisition and providing future working capital flexibility for Monoprice. The credit facility consists of a \$30.0 million revolving credit loan—which includes up to \$5.0 million under a letter of credit and up to \$5.0 million in swingline loans—and a \$40.0 million term loan for an aggregate \$70.0 million credit facility. The final maturity date of the credit facility is November 22, 2018. Monoprice's obligations under the credit facility are guaranteed by Monoprice Holdings, Inc. and are secured by the assets of the Monoprice business.

Monoprice borrowed \$50.0 million under the credit facility, which was used to pay a dividend to Blucora and to pay certain expenses and fees related to the credit facility. Monoprice repaid \$6.0 million in 2014. Monoprice has the right to permanently reduce, without premium or penalty, the entire credit facility at any time or portions of the credit facility in an aggregate principal amount not less than \$1.0 million or any whole multiple of \$1.0 million in excess thereof (for swingline loans, the aggregate principal amount is not less than \$0.1 million and any whole multiple of \$0.1 million in excess thereof). The interest rate on amounts borrowed under the credit facility is variable, based upon, at the election of Monoprice, either LIBOR plus a margin of between 2.75% and 3.25%, payable as of the end of each interest period, or a variable rate plus a margin of between 1.75% and 2.25%, payable quarterly in arrears. In each case, the applicable margin within the range depends upon Monoprice's ratio of leverage to EBITDA over the previous four quarters. The credit facility includes financial and operating covenants with respect to certain ratios, including leverage ratio and fixed charge coverage ratio, which are defined further in the agreement. As of September 30, 2014, Monoprice was in compliance with all of the financial and operating covenants. As of September 30, 2014, the credit facility's principal amount approximated its fair value as it is a variable rate instrument and the current applicable margin approximates current market conditions.

TaxACT 2013 credit facility: On August 30, 2013, TaxACT entered into an agreement with a syndicate of lenders to refinance a 2012 credit facility on more favorable terms. Under that 2012 credit facility, TaxACT borrowed \$100.0 million, of which \$25.5 million was repaid in 2012, \$10.0 million in April 2013, and the remaining \$64.5 million in August 2013, the latter amount in connection with the refinancing of this credit agreement. The interest rate on amounts borrowed under the 2012 credit facility was variable. The Company hedged a portion of the interest rate risk through an interest rate swap, which was terminated at break-even on September 10, 2013.

The new 2013 credit facility consists of revolving credit loans, up to \$10.0 million in swingline loans, and up to \$5.0 million under a letter of credit, which in the aggregate represented a \$100.0 million revolving credit commitment that reduced to \$90.0 million on August 30, 2014 and will reduce to \$80.0 million on August 30, 2015 and \$70.0 million

on August 30, 2016. The final maturity date of the credit facility is August 30, 2018. TaxACT's obligations under the credit facility are guaranteed by TaxACT Holdings, Inc. and are secured by the assets of the TaxACT business.

- 12 -

---

Table of Contents

TaxACT borrowed approximately \$71.4 million under the 2013 credit facility, of which \$65.4 million was used to pay off the 2012 credit facility, accrued interest, and certain expenses and fees related to the refinancing and an additional \$6.0 million was borrowed in October 2013. TaxACT had net repayment activity of \$52.0 million in 2014. TaxACT has the right to permanently reduce, without premium or penalty, the entire credit facility at any time or portions of the credit facility in an aggregate principal amount not less than \$3.0 million or any whole multiple of \$1.0 million in excess thereof. The interest rate on amounts borrowed under the credit facility is variable, based upon, at the election of TaxACT, either LIBOR plus a margin of between 1.75% and 2.5%, or a Base Rate plus a margin of between 0.75% and 1.5%, and payable as of the end of each interest period. In each case, the applicable margin within the range depends upon TaxACT's ratio of leverage to EBITDA over the previous four quarters. The credit facility includes financial and operating covenants with respect to certain ratios, including leverage ratio and fixed charge coverage ratio, which are defined further in the agreement. As of September 30, 2014, the Company was in compliance with all of the financial and operating covenants. As of September 30, 2014, the credit facility's principal amount approximated its fair value as it is a variable rate instrument and the current applicable margin approximates current market conditions.

On August 30, 2013, the Company performed an analysis by creditor to determine whether the refinancing would be recorded as an extinguishment or a modification of debt and, as a result of this analysis, recognized a loss on partial extinguishment of debt comprised of the following (in thousands):

Refinancing fees paid to creditors, including arrangement fee, classified as extinguishment	\$ 567
Deferred financing costs on extinguished debt	726
Debt discount on extinguished debt	300
Total	\$ 1,593

In connection with amounts classified as an extinguishment, the Company recorded deferred debt issuance costs, which are being amortized as an adjustment to interest expense over the term of the new credit facility using the effective interest method. The remaining portion of the refinancing was a modification, and the Company determined a new effective interest rate based on the carrying amount of the original debt and the revised cash flows. Deferred financing costs and unamortized debt discount related to the prior credit agreement are being amortized as an adjustment to interest expense over the term of the new credit facility using the effective interest method. Similarly, additional creditor-related fees related to the modification are being amortized over the term of the new credit facility using the effective interest method. In total, approximately \$0.7 million is being amortized over the term of the new credit facility using the effective interest method.

Convertible Senior Notes: On March 15, 2013, the Company issued \$201.25 million aggregate principal amount of its Convertible Senior Notes (the "Notes"), inclusive of the underwriters' exercise in full of their over-allotment option of \$26.25 million. The Notes mature on April 1, 2019, unless earlier purchased, redeemed, or converted in accordance with the terms, and bear interest at a rate of 4.25% per year, payable semi-annually in arrears beginning on October 1, 2013. The Company received net proceeds from the offering of approximately \$194.8 million after adjusting for debt issuance costs, including the underwriting discount.

The Notes were issued under an indenture dated March 15, 2013 (the "Indenture") by and between the Company and The Bank of New York Mellon Trust Company, N.A., as Trustee. There are no financial or operating covenants relating to the Notes.

Beginning July 1, 2013 and prior to the close of business on September 28, 2018, holders may convert all or a portion of the Notes at their option, in multiples of \$1,000 principal amount, under the following circumstances:

During any fiscal quarter commencing July 1, 2013, if the last reported sale price of the Company's common stock for at least 20 trading days during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day. As of September 30, 2014, the Notes were not convertible.

During the five business day period after any five consecutive trading day period (the "measurement period") in which the trading price per \$1,000 principal amount of the Notes for each trading day of the measurement period was less than 98% of the product of the last reported sales price of the Company's common stock and the conversion rate on

each trading day.

If the Company calls any or all of the Notes for redemption.

- 13 -

---

Table of Contents

Upon the occurrence of specified corporate events, including a merger or a sale of all or substantially all of the Company's assets.

The convertibility of the Notes is determined at the end of each reporting period. If the Notes are determined to be convertible, they remain convertible until the end of the subsequent quarter and are classified in "Current liabilities" on the balance sheet; otherwise, they are classified in "Long-term liabilities." Depending upon the price of the Company's common stock or the trading price of the Notes within the reporting period, pursuant to the first two criteria listed above, the Notes could be convertible during one reporting period but not convertible during a comparable reporting period.

On or after October 1, 2018 and until the close of business on March 28, 2019, holders may convert their Notes, in multiples of \$1,000 principal amount, at the option of the holder.

The conversion ratio for the Notes is initially 0.0461723, equivalent to an initial conversion price of approximately \$21.66 per share of the Company's common stock. The conversion ratio is subject to customary adjustment for certain events as described in the Indenture.

At the time the Company issued the Notes, the Company was only permitted to settle conversions with shares of its common stock. The Company received shareholder approval at its annual meeting in May 2013 to allow for "flexible settlement," which provided the Company with the option to settle conversions in cash, shares of common stock, or any combination thereof. The Company's intention is to satisfy conversion of the Notes with cash for the principal amount of the debt and shares of common stock for any related conversion premium.

Beginning April 6, 2016, the Company may, at its option, redeem for cash all or part of the Notes plus accrued and unpaid interest. If the Company undergoes a fundamental change (as described in the Indenture), holders may require the Company to repurchase for cash all or part of their Notes in principal amounts of \$1,000 or an integral multiple thereof. The fundamental change repurchase price will be equal to 100% of the principal amount of the Notes to be repurchased, plus accrued and unpaid interest. However, if a fundamental change occurs and a holder elects to convert the Notes, the Company will, under certain circumstances, increase the applicable conversion rate for the Notes surrendered for conversion by a number of additional shares of common stock based on the date on which the fundamental change occurs or becomes effective and the price paid per share of the Company's common stock in the fundamental change as specified in the Indenture.

The Notes are unsecured and unsubordinated obligations of the Company and rank senior in right of payment to any of the Company's indebtedness that is expressly subordinated in right of payment to the Notes, and equal in right of payment to any of the Company's existing and future unsecured indebtedness that is not subordinated. The Notes are effectively junior in right of payment to any of the Company's secured indebtedness (to the extent of the value of assets securing such indebtedness) and structurally junior to all existing and future indebtedness and other liabilities, including trade payables, of the Company's subsidiaries. The Indenture does not limit the amount of debt that the Company or its subsidiaries may incur.

The Notes may be settled in a combination of cash or shares of common stock given the flexible settlement option. As a result, the Notes contain liability and equity components, which were bifurcated and accounted for separately. The liability component of the Notes, as of the issuance date, was calculated by estimating the fair value of a similar liability issued at a 6.5% effective interest rate, which was determined by considering the rate of return investors would require in the Company's debt structure. The amount of the equity component was calculated by deducting the fair value of the liability component from the principal amount of the Notes, resulting in the initial recognition of \$22.3 million as the debt discount recorded in additional paid-in capital for the Notes. The carrying amount of the Notes is being accreted to the principal amount over the remaining term to maturity, and the Company is recording corresponding interest expense. The Company incurred debt issuance costs of \$6.4 million related to the Notes and allocated \$5.7 million to the liability component of the Notes. These costs are being amortized to interest expense over the six-year term of the Notes or the date of conversion, if any.

The following table sets forth total interest expense for the three and nine months ended September 30, 2014 and 2013 related to the Notes (in thousands):





Table of Contents

	Three months ended September 30,		Nine months ended September 30,		
	2014	2013	2014	2013	
Contractual interest expense (Cash)	\$2,138	\$2,139	\$6,415	\$4,657	
Amortization of debt issuance costs (Non-cash)	232	216	684	465	
Accretion of debt discount (Non-cash)	907	843	2,671	1,816	
Total interest expense	\$3,277	\$3,198	\$9,770	\$6,938	
Effective interest rate of the liability component	7.32	% 7.32	% 7.32	% 7.32	%

The fair value of the principal amount of the Notes as of September 30, 2014 was \$202.0 million, based on the last quoted active trading price, a Level 1 fair value measurement, as of that date.

**Note 7: Commitments and Contingencies**

There have been no material changes during the period covered by this Quarterly Report on Form 10-Q, outside of the ordinary course of the Company's business, to the contractual obligations and commitments specified in "Note 9: Commitments and Contingencies" in Part II Item 8 of the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

**Litigation:** From time to time, the Company is subject to various legal proceedings or claims that arise in the ordinary course of business. Following is a brief description of the more significant legal proceedings. The Company accrues a liability when management believes that it is both probable that a liability has been incurred and the amount of loss can be reasonably estimated. Although the Company believes that resolving claims against it, individually or in aggregate, will not have a material adverse impact on its financial statements, these matters are subject to inherent uncertainties.

On May 12, 2014, a putative class action complaint was filed in the U.S. District Court for the Western District of Washington against the Company and certain of its officers. The complaint asserted claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 promulgated thereunder. This case purported to be brought on behalf of a class of persons who purchased the Company's common stock during the period between November 5, 2013 and February 20, 2014. On November 3, 2014, the plaintiff agreed to voluntarily dismiss this case without prejudice, and a stipulation of dismissal is currently pending.

**Note 8: Stockholders' Equity**

**Stock-based compensation:** The Company included the following amounts for stock-based compensation expense, which related to stock options, RSUs, and the Company's employee stock purchase plan ("ESPP"), in the consolidated statements of comprehensive income (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Cost of revenues	\$101	\$94	\$373	\$541
Engineering and technology	568	370	1,312	942
Sales and marketing	74	649	1,715	1,652
General and administrative	1,865	2,139	5,574	5,355
Total	\$2,608	\$3,252	\$8,974	\$8,490
Excluded and capitalized as part of internal-use software	\$26	\$34	\$80	\$68

In May 2012, the Company granted 190,000 stock options to certain employees who perform acquisition-related activities. The awards' vestings were predicated on completing "qualified acquisitions" under the terms of the awards. The completions of the HSW acquisition on May 30, 2014 and the Monoprice acquisition on August 22, 2013 constituted qualified acquisitions under the terms of the awards. The vestings of the awards resulted in charges of \$0.3 million to stock-based compensation expense in the nine months ended September 30, 2014 and \$0.5 million to stock-based compensation expense in the three and nine months ended September 30, 2013, both of which were classified in "General and administrative" expense.

Total net shares issued for stock options exercised, RSUs vested, and shares purchased pursuant to the ESPP were as follows (in thousands):

- 15 -

---

Table of Contents

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Stock options exercised	74	39	214	157
RSUs vested	79	70	284	294
Shares purchased pursuant to ESPP	49	48	85	84
Total	202	157	583	535

Warrant: On August 23, 2011, the Company issued a warrant (the “Warrant”) to purchase 1.0 million shares of Blucora common stock, exercisable at a price of \$9.62 per share. The Warrant originally was considered stock-based compensation and was scheduled to expire on August 23, 2014, but the completion of the TaxACT acquisition on January 31, 2012 was an event under the Warrant’s terms that extended the expiration date to the earlier of August 23, 2017 or the effective date of a change of control of Blucora. Subsequent to the extension, the Company treated the award as a derivative instrument (see “Note 2: Summary of Significant Accounting Policies”), and the Warrant’s fair value was determined each reporting period with gains or losses related to the change in fair value recorded in “Other loss, net.” On November 21, 2013, the Warrant was exercised and 1.0 million shares of Blucora common stock were purchased for an aggregate exercise price of \$9.6 million.

Stock repurchase program: In February 2013, the Company’s Board of Directors approved a stock repurchase program whereby the Company may purchase its common stock in open-market transactions. In May 2014, the Board of Directors increased the repurchase authorization, such that the Company may repurchase up to \$85.0 million of its common stock, and extended the repurchase period through May 2016. Repurchased shares will be retired and resume the status of authorized but unissued shares of common stock. During the nine months ended September 30, 2014, the Company purchased 1.7 million shares in open-market transactions at a total cost of approximately \$29.9 million and an average price of \$17.68 per share, exclusive of purchase and administrative costs. As of September 30, 2014, the Company may repurchase an additional \$45.2 million, which also takes into consideration share repurchases during 2013 of \$10.0 million, of its common stock under the repurchase program.

#### Note 9: Segment Information

The Company changed its segment reporting structure as a result of the Monoprice acquisition on August 22, 2013. The Search and Content segment (formerly known as the Search segment) is the InfoSpace business, which now includes HSW, the Tax Preparation segment is the TaxACT business, and the E-Commerce segment is the Monoprice business. The Company’s chief executive officer is its chief operating decision maker and reviews financial information presented on a disaggregated basis. This information is used for purposes of allocating resources and evaluating financial performance.

The Company does not allocate certain general and administrative costs (including personnel and overhead costs), stock-based compensation, depreciation, and amortization of intangible assets to the reportable segments. Such amounts are reflected in the table under the heading “Corporate-level activity.” In addition, the Company does not allocate other loss, net and income taxes to the reportable segments. The Company does not account for, and does not report to management, its assets or capital expenditures by segment other than goodwill and intangible assets used for impairment analysis purposes.

Information on reportable segments currently presented to the Company’s chief operating decision maker and a reconciliation to consolidated net income are presented below (in thousands):

Table of Contents

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Revenues:				
Search and Content	\$74,416	\$107,742	\$260,999	\$302,840
Tax Preparation	2,469	1,749	101,200	89,170
E-Commerce	37,970	14,630	110,408	14,630
Total revenues	114,855	124,121	472,607	406,640
Operating income (loss):				
Search and Content	12,709	21,319	45,971	57,501
Tax Preparation	(1,859)	(1,605)	52,754	43,617
E-Commerce	3,336	906	9,192	906
Corporate-level activity	(15,510)	(14,493)	(46,851)	(38,261)
Total operating income (loss)	(1,324)	6,127	61,066	63,763
Other loss, net	(3,208)	(13,118)	(11,001)	(20,427)
Income tax benefit (expense)	2,294	510	(17,579)	(17,803)
Net income (loss)	\$(2,238)	\$(6,481)	\$32,486	\$25,533

## Note 10: Net Income (Loss) Per Share

“Basic net income (loss) per share” is computed using the weighted average number of common shares outstanding during the period. “Diluted net income (loss) per share” is computed using the weighted average number of common shares outstanding plus the number of dilutive potential common shares outstanding during the period. Dilutive potential common shares consist of the incremental common shares issuable upon the exercise of outstanding stock options, vesting of unvested RSUs, exercise of the Warrant (for the three and nine months ended September 30, 2013), and conversion or maturity of the Notes. Dilutive potential common shares are excluded from the computation of earnings per share if their effect is antidilutive.

Weighted average shares were as follows (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Weighted average common shares outstanding, basic	41,034	41,088	41,589	41,048
Dilutive potential common shares	—	—	1,714	1,830
Weighted average common shares outstanding, diluted	41,034	41,088	43,303	42,878
Shares excluded	5,302	5,893	940	946

Shares excluded primarily related to shares excluded due to the antidilutive effect of a net loss (for the three months ended September 30, 2014 and 2013), stock options with an exercise price greater than the average price during the applicable periods, and awards with performance conditions not completed during the applicable periods.

As more fully discussed in “Note 6: Debt,” in March 2013, the Company issued the Notes, which are convertible and mature in April 2019. In May 2013, the Company received shareholder approval for “flexible settlement,” which provided the Company with the option to settle conversions in cash, shares of common stock, or any combination thereof. The Company intends, upon conversion or maturity of the Notes, to settle the principal in cash and satisfy any conversion premium by issuing shares of its common stock. As a result, the Company only includes the impact of the premium feature in its dilutive potential common shares when the average stock price during the quarter exceeds the conversion price of the Notes, which did not occur during the three months ended September 30, 2014 and 2013.

## Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

This Quarterly Report on Form 10-Q contains forward-looking statements that involve risks and uncertainties. The statements in this report that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as

amended. These forward-

- 17 -

---

## Table of Contents

looking statements include, but are not limited to: statements regarding projections of our future financial performance; trends in our businesses; our future business plans and growth strategy, including our plans to expand, develop, or acquire particular operations, businesses, or assets; and the sufficiency of our cash balances and cash generated from operating, investing, and financing activities for our future liquidity and capital resource needs. Forward-looking statements are subject to known and unknown risks, uncertainties, and other factors that may cause our results, levels of activity, performance, achievements, prospects, and other characterizations of future events or circumstances, to be materially different from those expressed or implied by such forward-looking statements. These risks, uncertainties, and other factors include, among others, those identified under Part II Item 1A, "Risk Factors," and elsewhere in this report. You should not rely on forward-looking statements included herein, which speak only as of the date of this Quarterly Report on Form 10-Q or the date specified herein. We do not undertake any obligation to update publicly any forward-looking statement to reflect new information, events, or circumstances after the date of this Quarterly Report on Form 10-Q or to reflect the occurrence of unanticipated events.

### Overview

Blucora (the "Company", "Blucora", or "we") operates a portfolio of leading internet businesses: an internet search and content business, an online tax preparation business, and an e-commerce business. The Search and Content business, InfoSpace, provides search services to users of our owned and operated and distribution partners' web properties, as well as online content. The Tax Preparation business consists of the operations of TaxACT and provides online tax preparation service for individuals, tax preparation software for individuals and professional tax preparers, and ancillary services. The E-Commerce business consists of the operations of Monoprice, which we acquired on August 22, 2013, and provides self-branded electronics and accessories to both consumers and businesses.

### Our Businesses

#### Search and Content

The majority of our revenues are generated by our Search and Content segment (formerly known as our Search segment). The InfoSpace business provides search services to users of our owned and operated and distribution partners' web properties, as well as online content. Our owned and operated properties include Dogpile.com, WebCrawler.com, Zoo.com, and HowStuffWorks.com (acquired May 30, 2014, see below). InfoSpace has a network of over 100 distribution partners and provides services to users through the respective web properties of those distribution partners, which are generally private-labeled and customized to address the unique requirements of each distribution partner.

The Search and Content segment's revenue primarily consists of advertising revenue, which is generated through the display of paid listings in response to search queries, as well as from advertisements appearing on our HowStuffWorks.com website. Our Search and Content revenues are generated predominantly through search queries originating from desktop and laptop computers. The paid listings, as well as algorithmic search results, primarily are supplied by Google and Yahoo!, whom we refer to as our Search Customers. When a user submits a search query through one of our owned and operated or distribution partner sites and clicks on a paid listing displayed in response to the query, the Search Customer bills the advertiser that purchased the paid listing directly and shares a portion of its related paid listing fee with us. If the paid listing click occurred on one of our distribution partners' properties, we pay a significant share of our revenue to the distribution partner. Revenues are recognized in the period in which such clicks on paid listings occur and are based on the amounts earned and remitted to us by our Search Customers.

We derive a significant portion of our revenue from Google, and we expect this concentration to continue in the foreseeable future. For the three and nine months ended September 30, 2014, Search and Content revenue from Google accounted for approximately 79% and 81%, respectively, of our Search and Content segment revenue and 51% and 45%, respectively, of our total revenue. For further discussion of this concentration risk, see the paragraph in our Risk Factors (Part II Item 1A of this report) under the heading "Most of our search services revenue is attributable to Google, and the loss of, or a payment dispute with, Google or any other significant Search Customer would harm our business and financial results."

On May 30, 2014, InfoSpace acquired HowStuffWorks ("HSW"), a provider of online content through various websites, including [www.HowStuffWorks.com](http://www.HowStuffWorks.com).

#### Tax Preparation



## Table of Contents

Our TaxACT business consists of an online tax preparation service for individuals, tax preparation software for individuals and professional tax preparers, and ancillary services. TaxACT generates revenue primarily through its online service at [www.taxact.com](http://www.taxact.com). The TaxACT business's basic federal tax preparation online software service is "free for everyone," meaning that any taxpayer can use the services to e-file his or her federal income tax return without paying for upgraded services and may do so for every form that the IRS allows to be e-filed. This free offer differentiates TaxACT's offerings from many of its competitors who limit their free software and/or services offerings to certain categories of customers or certain forms. The TaxACT business generates revenue from a percentage of these "free" users who purchase a state form or choose to upgrade for a fee to the Deluxe or Ultimate offering, which includes additional support, tools, or state forms in the case of the Ultimate offering. In addition, revenue is generated from the sale of ancillary services, which include, among other things, tax preparation support services, data archive services, bank services (including reloadable pre-paid debit card services), and additional e-filing services. TaxACT is the recognized value player in the digital do-it-yourself space, offering comparable software and/or services at a lower cost to the end user compared to larger competitors. This, coupled with its "free for everyone" offer, provides TaxACT a valuable marketing position. TaxACT's professional tax preparer software allows professional tax preparers to file individual returns for their clients. Revenue from professional tax preparers historically has constituted a relatively small percentage of the TaxACT business's overall revenue and requires relatively modest incremental development costs as the basic software is substantially similar to the consumer-facing software and online service.

### E-Commerce

Our E-Commerce business, Monoprice, is an online retailer of self-branded electronics and accessories to both consumers and businesses. Monoprice offers its products for sale through the [www.monoprice.com](http://www.monoprice.com) website, where the majority of our E-Commerce revenue is derived, and fulfills those orders from our warehouse in Rancho Cucamonga, California. We also sell our products through distributor, reseller, and marketplace agreements. Monoprice has built a well-respected consumer brand by delivering products with premium quality on par with well-known national brands, selling these products at prices far below the prices for those well-known brands, and providing top-tier service and rapid product delivery. The Monoprice website showcases 14 product categories and over 6,700 individual products. Monoprice has developed an efficient product cost structure that is enabled by a direct import supply chain solution that eliminates traditional layers of mark-ups imposed by intermediaries. Consumers are able to access and purchase products 24 hours a day from the convenience of a computer or a mobile device. Monoprice's team of customer service representatives assists customers primarily by online chat or email. Nearly all sales are to customers located in the United States.

### Seasonality

Our Tax Preparation segment is highly seasonal, with the significant majority of its annual revenue earned in the first four months of our fiscal year. During the third and fourth quarters, the Tax Preparation segment typically reports losses because revenue from the segment is minimal while core operating expenses continue at relatively consistent levels. Revenue from our E-Commerce segment also is seasonal, with revenues historically being the lowest in the second quarter, a period that does not include consumer back-to-school or holiday-related spending.

### Acquisition

On May 30, 2014, InfoSpace acquired HSW for \$44.9 million in cash. HSW is included in our financial results beginning on May 30, 2014, the acquisition date.

On August 22, 2013, we acquired Monoprice for \$182.9 million in cash, after a \$0.4 million working capital adjustment in the fourth quarter of 2013. Monoprice is included in our financial results beginning on August 22, 2013, the acquisition date. Accordingly, the results discussed below were impacted by the timing of this acquisition, in which 2014 included a full year of results as compared to a partial year of results in 2013.

### Comparability

Certain prior period amounts have been reclassified to conform to the current period presentation.

## RESULTS OF OPERATIONS

### Summary





Table of Contents

(In thousands, except percentages)	Three months ended September 30,			Nine months ended September 30,		
	2014	2013	Percentage Change	2014	2013	Percentage Change
Services revenue	\$76,885	\$109,491	(30)%	\$362,199	\$392,010	(8)%
Product revenue, net	37,970	14,630	160%	110,408	14,630	655%
Total revenues	\$114,855	\$124,121	(7)%	\$472,607	\$406,640	16%
Operating income (loss)	\$(1,324)	\$6,127	(122)%	\$61,066	\$63,763	(4)%

Three months ended September 30, 2014 compared with three months ended September 30, 2013

Total revenues decreased approximately \$9.3 million due to a decrease of \$33.3 million in revenue related to our Search and Content business, offset by increases of \$23.3 million in product revenue from the Monoprice business that we acquired in August 2013 and \$0.7 million in revenue related to our Tax Preparation business.

Operating income decreased approximately \$7.5 million, consisting of the \$9.3 million decrease in revenue and offset by a \$1.8 million decrease in operating expenses. Key changes in operating expenses were:

- \$24.7 million decrease in the Search and Content segment's operating expenses primarily as a result of lower revenue share to our distribution partners with the decrease in Search and Content distribution revenue, decreased content costs, and lower spending on our online marketing, offset by higher personnel expenses due to increased headcount.

- \$1.0 million increase in the Tax Preparation segment's operating expenses primarily due to higher personnel expenses due to increased headcount.

- \$20.9 million increase in the E-Commerce segment's operating expenses primarily due to the timing of the Monoprice acquisition.

- \$1.0 million increase in corporate-level expense activity primarily as a result of amortization expense associated with the acquisitions of Monoprice and HSW and depreciation expense on fixed assets attributable to Monoprice.

Segment results are discussed in the next section.

Nine months ended September 30, 2014 compared with nine months ended September 30, 2013

Total revenues increased approximately \$66.0 million due to increases of \$95.8 million in product revenue from the Monoprice business that we acquired in August 2013 and \$12.0 million in revenue related to our Tax Preparation business, offset by a decrease of \$41.8 million in revenue related to our Search and Content business.

Operating income decreased approximately \$2.7 million, consisting of the \$66.0 million increase in revenue and offset by a \$68.7 million increase in operating expenses. Key changes in operating expenses were:

- \$30.3 million decrease in the Search and Content segment's operating expenses primarily as a result of lower revenue share to our distribution partners with the decrease in Search and Content distribution revenue and decreased content costs, offset by higher spending on our online marketing and higher personnel expenses due to increased headcount.

- \$2.9 million increase in the Tax Preparation segment's operating expenses primarily due to higher personnel expenses due to increased headcount and higher spending on marketing campaigns for the current tax season.

- \$87.5 million increase in the E-Commerce segment's operating expenses primarily due to the timing of the Monoprice acquisition.

- \$8.6 million increase in corporate-level expense activity primarily as a result of amortization expense associated with the acquisitions of Monoprice and HSW, depreciation expense on fixed assets attributable to

Table of Contents

Monoprice, higher stock-based compensation related to the issuance of equity awards to Monoprice and Balance Financial employees, and employee separation costs.

Segment results are discussed in the next section.

**SEGMENT REVENUE/OPERATING INCOME**

The revenue and operating income amounts in this section are presented on a basis consistent with GAAP and include certain reconciling items attributable to each of the segments. Segment information appearing in “Note 9: Segment Information” of the Notes to Unaudited Condensed Consolidated Financial Statements in Part I Item 1 of this report is presented on a basis consistent with our current internal management financial reporting. We do not allocate certain general and administrative costs (including personnel and overhead costs), stock-based compensation, depreciation, amortization of intangible assets, other loss, net, and income taxes to segment operating results. We analyze these separately.

Following the acquisition of Monoprice, we determined that we have three reportable segments: Search and Content, Tax Preparation, and E-Commerce.

**Search and Content**

Ongoing challenges in the Search and Content business: In our Quarterly Reports on Form 10-Q for the first and second quarters of 2014, we disclosed that our Search and Content business was experiencing significant volatility, resulting in decreased revenue and margin compression due to a number of factors. These factors included a technology change, changes to our mobile advertising offering as a result of our new agreement with Google, and suspended or limited access to our services for certain distribution partners due to regular monitoring of policy and compliance requirements. In our Form 10-Q for the second quarter of 2014, we also disclosed that segment margin might compress further in future quarters and that we expected year-over-year quarterly declines in our results through the first quarter of 2015. We noted further that, while ongoing results in future quarters could be further impacted by existing or new volatility factors, we believed that the Search and Content segment results for the second quarter of 2014 could be representative of the expected results going forward. Following the filing of our Form 10-Q for the second quarter of 2014, we continued to experience downward pressure on both our owned and operated and distribution businesses, beyond what we expected at the time of that filing. As the result of this continued downward pressure, we experienced a sequential quarterly decline in the third quarter and now expect additional sequential quarterly declines in the fourth quarter, likely continuing into 2015.

The increased downward pressure in our owned and operated business is the result of our inability to increase online marketing expenditures, and thus earn revenue, without a negative impact to our desired rate of return, despite an already lowered expectation for that rate of return for the third quarter of 2014. Our inability to profitably scale our online marketing expenditures in the third quarter was due to a decrease in the revenue earned for this traffic without a corresponding decrease in cost to acquire traffic. We believe that this decrease is related to volatility with respect to the quality scores that are applied by our Search Customers to certain of our sites. Quality scores are one of the factors that dictate the economic conditions under which we operate with our Search Customers and are intended to represent a measure of quality for their advertisers and for end users of our search services. Our Search Customers regularly update these scores and have the ability to unilaterally change both how scores are calculated and how they are applied to traffic, and we can correlate the downward pressure to volatility in quality scores and to changes in their application. However, the factors impacting these scores, or how these scores impact revenue and cost, are proprietary to our Search Customers, and we have limited visibility into those elements. As a result, we believe that we can sustain our third quarter owned and operated revenue performance, within a reasonable range, into the fourth quarter of 2014, but we expect to remain challenged in our ability to increase marketing expenditures while maintaining our desired rate of return.

We are also experiencing downward pressure in our distribution business. This business experienced monthly sequential declines in revenue throughout the first half of the year but saw sequential growth in July 2014. As a result of this sequential growth, we believed that we had stabilized this business to a level that could be sustained within a reasonable range. Unfortunately, in mid-August, we began to see a number of factors that were adversely affecting our distribution business, including the loss of certain distribution partner traffic due to increased competition, continued difficulty in adding new distribution partners, changes in interpretation and enforcement of our Search Customers'

policies and requirements, and our own compliance efforts. Of the approximately \$7.5 million sequential decline in distribution revenue, we believe that about \$2.2 million, or 30%, was due to the loss of certain distribution partner traffic to competitors. The remainder was due to a variety of factors but primarily was driven by the effects of changes in interpretation and enforcement of policies and requirements, and our own compliance efforts related to those policies and requirements. As we have previously noted, our Search Customers have broad discretion to unilaterally revise their policies and requirements, and their interpretations of those

- 21 -

---

Table of Contents

e policies and requirements may differ from ours. Recent changes in the interpretation and enforcement of policies and requirements by our Search Customers have significantly impacted the operations of some of our larger and more tenured distribution partners and also have impacted our ability to bring new partners into our network. These changes generally impact models that have historically been permitted by our Search Customers, but we believe our Search Customers now wish to deemphasize these models in their networks. The most significant changes take the form of restrictions on marketing, traffic acquisition, and distribution methodologies by certain partners, restrictions on certain content displayed by partners, and changes in categorization of certain traffic, all of which have resulted in decreased revenue. As a result of these changes in interpretation and enforcement, and the other factors noted above, we saw monthly sequential declines in distribution revenue in August 2014 and September 2014, and we expect these declines to continue into the fourth quarter of 2014. We are working with our distribution partners to help them adapt their business models to these changes, but ultimately we are dependent upon our partners' ability, financial viability, or desire to adapt, each of which is proprietary to our distribution partners and beyond our control.

We have recently seen significantly increased frequency in the changes in the interpretation and enforcement of our Search Customers' requirements and policies. If our Search Customers continue to revise their interpretation and enforcement of their requirements and policies, our Search and Content business will continue to experience volatility. In anticipation of such possibility, we are taking immediate action to reduce our cost structure by approximately \$2.5 million annually and to redeploy resources toward initiatives that we believe will better align with our Search Customers' vision, which should drive longer-term and more sustainable segment income. These initiatives will be driven by new leadership that we recently brought to this business, with the intention to provide product and service diversification and stabilize revenue. Since these initiatives will take time to develop and scale, we expect further downward pressure on revenues for the fourth quarter of 2014. Specifically, we expect fourth quarter segment revenue to be down \$9.4 million to \$18.4 million from the third quarter of 2014, resulting in a fourth quarter guidance range of \$56.0 million to \$65.0 million. We also expect segment margin to decline in the fourth quarter between \$3.2 million and \$6.0 million, as compared to the third quarter of 2014, for a segment margin guidance range of \$6.7 million to \$9.5 million, which includes non-recurring expenses associated with cost reductions of approximately \$1.0 million. We expect that our Search and Content business will continue to be subject to adverse headwinds into 2015, but we are currently unable to quantify the likely effects on our business due to the fact that the factors at play are fluid, are largely controlled by our Search Customers, and result in changes to the financial viability of our distribution partners, which we do not control and into which we have limited insight.

Search and Content operating results: The following table presents our Search and Content operating results:

(In thousands, except percentages)	Three months ended September 30,			Nine months ended September 30,		
	2014	2013	Percentage Change	2014	2013	Percentage Change
Revenue	\$74,416	\$107,742	(31)%	\$260,999	\$302,840	(14)%
Operating income	\$12,709	\$21,319	(40)%	\$45,971	\$57,501	(20)%
Segment margin	17	% 20	%	18	% 19	%

Search and Content revenue: Our ability to increase Search and Content revenue is dependent on our ability to attract and retain distribution partners and users of our owned and operated properties, which relies on providing a satisfying end user experience. In addition, providing an attractive monetization proposition, as well as support and service, for distribution partners continues to be a key driver in our ability to grow distribution revenue.

Search and Content operating income: Because we share revenue with our distribution partners, the Search and Content segment's cost of revenue will increase or decrease if search services revenue generated through our distribution partners' web properties increases or decreases, respectively. The cost of revenue can be impacted by the mix of revenue generated by our distribution partners. We manage our online marketing by projecting a desired return on our marketing expenditures and attempting to market according to that projected return.

The following table presents our Search and Content revenue by source and as a percentage of total Search and Content revenue:



Table of Contents

(In thousands, except percentages)	Three months ended September 30,						Nine months ended September 30,									
	2014		Percentage of 2013 Revenue		2013		Percentage of 2014 Revenue		2014		Percentage of 2013 Revenue		2013		Percentage of Revenue	
Revenue from existing distribution partners (launched prior to the then-current year)	\$55,830	75	%	\$75,749	70	%	\$204,823	78	%	\$238,901	79	%				
Revenue from new distribution partners (launched during the then-current year)	3,204	4	%	11,585	11	%	4,495	2	%	17,469	6	%				
Revenue from distribution partners	59,034	79	%	87,334	81	%	209,318	80	%	256,370	85	%				
Revenue from owned and operated properties	15,382	21	%	20,408	19	%	51,681	20	%	46,470	15	%				
Total Search and Content revenue	\$74,416			\$107,742			\$260,999			\$302,840						

Three months ended September 30, 2014 compared with three months ended September 30, 2013

Search and Content revenue decreased approximately \$33.3 million, or 31%, primarily due to a decrease in revenue from distribution partners. Revenue from distribution partners decreased \$28.3 million, or 32%, driven by decreases of \$19.9 million and \$8.4 million in revenue from existing partners and new partners (both defined in table above), respectively. We generated 37% and 31% of our Search and Content revenue through our top five distribution partners in the three months ended September 30, 2014 and 2013, respectively. The web properties of our top five distribution partners for the three months ended September 30, 2014 generated 22% of our Search and Content revenue in the three months ended September 30, 2013.

The decrease in distribution revenue primarily was driven by a previously disclosed factor that occurred in the first quarter of 2014 related to changes in our mobile advertising offering as a result of our new agreement with Google and the additional factors that occurred during the third quarter of 2014 as further explained above in "Ongoing challenges in the Search and Content business."

Revenue generated by our owned and operated properties (which includes HSW) decreased \$5.0 million, or 25%, primarily due to decreased investment in online marketing as further explained above in "Ongoing challenges in the Search and Content business." This decrease was offset by the revenue contribution from HSW.

Search and Content operating income decreased approximately \$8.6 million, consisting of the \$33.3 million decrease in revenue, offset by a decrease of \$24.7 million in operating expenses. The decrease in Search and Content segment operating expenses primarily was due to a \$22.4 million, or 33%, decrease in Search and Content services cost of revenue, which was mainly driven by the decrease in distribution revenue and the resulting revenue share to our distribution partners and decreased content costs, and a \$3.6 million decrease in spending on our online marketing, offset by increased personnel expenses due to higher headcount primarily as a result of the HSW acquisition. Segment margin decreased primarily due to increased personnel expenses and flat non-personnel operating expenses on declining revenues, as well as a lower return on our online marketing expenditures.

Nine months ended September 30, 2014 compared with nine months ended September 30, 2013

Search and Content revenue decreased approximately \$41.8 million, or 14%. Revenue from distribution partners decreased each quarter in 2014 over the prior year, for a total of \$47.1 million, or 18%, driven by decreases of \$34.1 million and \$13.0 million in revenue from existing partners and new partners (both defined in table above), respectively. The decrease in distribution revenue was affected by the same factors described above that impacted the quarterly period and the technology change previously disclosed in the first and second quarters of 2014. Revenue generated by our owned and operated properties (which includes HSW) increased \$5.2 million, or 11%, primarily due

to increased investment in online marketing in the first quarter of 2014 as compared to the first quarter of 2013, which was partially offset by decreased investment in the third quarter of 2014, as explained above, coupled with the revenue contribution from HSW. These increases were offset by a decrease in revenue from our legacy owned and operated properties.

- 23 -

---



Table of Contents

Search and Content operating income decreased approximately \$11.5 million, consisting of the \$41.8 million decrease in revenue, offset by a decrease of \$30.3 million in operating expenses. The decrease in Search and Content segment operating expenses primarily was due to a \$39.9 million, or 20%, decrease in Search and Content services cost of revenue, which was mainly driven by the decrease in distribution revenue and the resulting revenue share to our distribution partners and decreased content costs. This decrease was offset by a \$7.5 million increase in spending on our online marketing, as well as increased personnel expenses due to higher headcount primarily as a result of the HSW acquisition. Segment margin decreased primarily due to the same factors described above that impacted the quarterly period.

## Tax Preparation

(In thousands, except percentages)

	Three months ended September 30,			Nine months ended September 30,		
	2014	2013	Percentage Change	2014	2013	Percentage Change
Revenue	\$2,469	\$1,749	41 %	\$101,200	\$89,170	13 %
Operating income (loss)	\$(1,859 )	\$(1,605 )	16 %	\$52,754	\$43,617	21 %
Segment margin	(75 )%	(92 )%		52 %	49 %	

Our ability to generate tax preparation revenue largely is driven by our ability to effectively market our consumer tax preparation software and online services and our ability to sell the related Deluxe and ancillary services to our customers. We also generate revenue through the professional tax preparer software that we sell to professional tax preparers who use it to prepare and file individual returns for their clients. Revenue from the professional tax preparation software is derived in two ways: from per-unit licensing fees for the software and from amounts that we charge to e-file through the software. Revenue from professional tax preparers historically has constituted a relatively small percentage of the overall revenue for the TaxACT business.

Consumer tax preparation revenue is largely driven by our ability to acquire new users of the service, retain existing users, and upsell users to paid products and services. We measure our individual tax preparation customers using the number of accepted federal tax e-filings made through our software and services. We refer to such tax filings as "e-files." We consider growth in the number of e-files to be the most important non-financial metric in measuring the performance of the tax preparation business.

Three months ended September 30, 2014 compared with three months ended September 30, 2013

Tax Preparation revenue increased primarily due to increasing payments over the past couple years related to data archive services that are recognized as revenue over the related contractual term.

Tax Preparation operating loss was comparable to the prior period.

Nine months ended September 30, 2014 compared with nine months ended September 30, 2013

Tax Preparation revenue increased approximately \$12.0 million primarily due to a 4% increase in consumer e-files, growth in average revenue per user, increased sales of bank services in the current year, and increasing payments over the past couple years related to data archive services that are recognized as revenue over the related contractual term.

Revenue derived from professional tax preparers also contributed to the increase, with a 12% increase in preparer e-files coupled with an increase in the number of professional preparer units sold.

Tax Preparation operating income increased approximately \$9.1 million due to the \$12.0 million increase in revenue, offset by an increase of \$2.9 million in operating expenses. The increase in Tax Preparation segment operating expenses primarily was due to an increase in personnel expenses mainly due to higher headcount supporting all functions and, to a lesser extent, increased spending on marketing campaigns for the current tax season.

## E-Commerce

The E-Commerce segment was new as of August 22, 2013 due to our acquisition of Monoprice.

Table of Contents

(In thousands, except percentages)	Three months ended September 30,			Nine months ended September 30,		
	2014	2013	Percentage Change	2014	2013	Percentage Change
Revenue	\$37,970	\$14,630	160 %	\$110,408	\$14,630	655 %
Operating income	\$3,336	\$906	268 %	\$9,192	\$906	915 %
Segment margin	9	% 6	%	8	% 6	%

The E-Commerce segment generates revenue by importing and selling self-branded consumer electronics and accessories for both consumers and businesses. Substantially all of our products are sold via the internet at www.monoprice.com. E-Commerce revenue growth largely is driven by our ability to increase the number of orders to new and existing consumer and business customers. While order growth slowed for the current period as compared to the prior period, it was offset by an increase in the average order value. Order numbers decreased for the three and nine months ended September 30, 2014 as compared to the comparable prior periods as follows:

	Three months ended September 30, 2014	Nine months ended September 30, 2014
Order numbers	(5 )%	(5 )%

Three months ended September 30, 2014 compared with three months ended September 30, 2013

E-Commerce revenue and operating income increased approximately \$23.3 million and \$2.4 million, respectively, primarily due to the timing of the Monoprice acquisition.

Nine months ended September 30, 2014 compared with nine months ended September 30, 2013

E-Commerce revenue and operating income increased approximately \$95.8 million and \$8.3 million, respectively, primarily due to the timing of the Monoprice acquisition. In addition, E-Commerce segment operating expenses included a \$1.2 million charge triggered by the resignation of Ajay Kumar, the President of Monoprice. On June 24, 2014, the Company accepted the resignation of Mr. Kumar, and, under the circumstances of that resignation, Mr. Kumar was entitled to receive payment under the terms of the Restricted Cash Agreement that was entered into in connection with our acquisition of Monoprice. The amount that Mr. Kumar was entitled to under the Restricted Cash Agreement was the deferred amount that he otherwise would have been entitled to receive at the time of the 2013 sale of Monoprice to Blucora. Refer to our Current Report on Form 8-K dated June 24, 2014 for additional information. Discussion of the employee separation costs paid to Mr. Kumar is covered under Corporate-Level Activity below.

## Corporate-Level Activity

(In thousands)	Three months ended September 30,			Nine months ended September 30,		
	2014	2013	Change	2014	2013	Change
Operating expenses	\$3,524	\$4,025	\$(501 )	\$10,579	\$10,358	\$221
Stock-based compensation	2,608	3,252	(644 )	8,974	8,490	484
Depreciation	1,385	1,126	259	4,194	3,119	1,075
Amortization of intangible assets	7,993	6,090	1,903	23,104	16,294	6,810
Total corporate-level activity	\$15,510	\$14,493	\$1,017	\$46,851	\$38,261	\$8,590

Certain corporate-level activity is not allocated to our segments, including certain general and administrative costs (including personnel and overhead costs), stock-based compensation, depreciation, and amortization of intangible assets. For further detail, refer to segment information appearing in "Note 9: Segment Information" of the Notes to Unaudited Condensed Consolidated Financial Statements in Part I Item 1 of this report.

Three months ended September 30, 2014 compared with three months ended September 30, 2013

Operating expenses included in corporate-level activity decreased primarily due to transaction expenses associated with the Monoprice acquisition in August 2013.

Table of Contents

Stock-based compensation decreased primarily due to stock options that vested upon completion of the Monoprice acquisition during the three months ended September 30, 2013 (for further detail, see "Note 8: Stockholders' Equity" of the Notes to Unaudited Condensed Consolidated Financial Statements in Part I Item 1 of this report).

Depreciation increased primarily due to depreciation expense on fixed assets attributable to Monoprice.

Amortization of intangible assets increased primarily due to amortization expense related to intangibles acquired as part of the Monoprice and HSW acquisitions.

Nine months ended September 30, 2014 compared with nine months ended September 30, 2013

Operating expenses included in corporate-level activity increased primarily due to a \$0.9 million increase in personnel expenses, which consisted of an increase in employee-related costs attributable to increased headcount in the current year to support operations and employee separation costs of \$0.4 million related to Mr. Kumar's employment agreement, and increased business insurance expenses primarily due to the timing of the Monoprice acquisition. These increases were offset by a \$0.9 million increase in capitalized internally developed software primarily due to the timing of the Monoprice acquisition. Internally developed software expense is recorded within our segments with the related cost capitalization benefit recorded within corporate-level activity.

Stock-based compensation increased primarily due to the issuance of equity awards to Monoprice and Balance Financial employees.

Depreciation increased primarily due to depreciation expense on fixed assets attributable to Monoprice.

Amortization of intangible assets increased primarily due to amortization expense related to intangibles acquired as part of the Monoprice and HSW acquisitions.

**OPERATING EXPENSES****Cost of Revenues**

(In thousands, except percentages)	Three months ended September 30,			Nine months ended September 30,		
	2014	2013	Change	2014	2013	Change
Services cost of revenue	\$49,754	\$72,935	\$(23,181 )	\$177,280	\$219,274	\$(41,994 )
Product cost of revenue	25,605	10,622	14,983	73,771	10,622	63,149
Total cost of revenues	\$75,359	\$83,557	\$(8,198 )	\$251,051	\$229,896	\$21,155
Percentage of revenues	66	% 67	%	53	% 57	%

We record the cost of revenues for services and products when the related revenue is recognized. Services cost of revenue consists of costs related to our Search and Content and Tax Preparation segments, which includes revenue sharing arrangements with our distribution partners, usage-based content fees, royalties, and bank product service fees. In addition, services cost of revenue includes costs associated with the operation of the data centers that serve our Search and Content and Tax Preparation businesses, which include personnel expenses (including salaries, stock-based compensation, benefits, and other employee-related costs), depreciation, and amortization of intangibles. Product cost of revenue consists of costs related to our E-Commerce segment, which includes product costs, inbound and outbound shipping and handling costs, packaging supplies, and provisions for inventory obsolescence.

Three months ended September 30, 2014 compared with three months ended September 30, 2013

Services cost of revenue decreased primarily due to decreased Search and Content services cost of revenue of \$22.4 million, driven by the decrease in revenue generated from distribution partners and the resulting revenue share to our distribution partners and decreased content costs.

Product cost of revenue increased primarily due to the timing of the Monoprice acquisition.

Nine months ended September 30, 2014 compared with nine months ended September 30, 2013

Table of Contents

Services cost of revenue decreased primarily due to decreased Search and Content services cost of revenue of \$39.9 million, driven by the decrease in revenue generated from distribution partners and the resulting revenue share to our distribution partners and decreased content costs, and, to a lesser extent, decreased data center expenses related to the migration of the Search data center to the cloud in 2013.

Product cost of revenue increased primarily due to the timing of the Monoprice acquisition.

**Engineering and Technology**

(In thousands, except percentages)	Three months ended September 30,			Nine months ended September 30,		
	2014	2013	Change	2014	2013	Change
Engineering and technology	\$5,970	\$2,905	\$3,065	\$14,922	\$7,951	\$6,971
Percentage of revenues	5	% 2	%	3	% 2	%

Engineering and technology expenses are associated with the research, development, support, and ongoing enhancements of our offerings, including personnel expenses (which include salaries, stock-based compensation, benefits, and other employee-related costs), as well as the cost of temporary help and contractors to augment our staffing, software support and maintenance, bandwidth and hosting, and professional service fees.

Three months ended September 30, 2014 compared with three months ended September 30, 2013

Engineering and technology expenses increased, of which \$1.2 million was attributable to Monoprice (excluding stock-based compensation) and primarily related to the timing of the Monoprice acquisition. The remaining increase primarily was due to a \$1.6 million increase in personnel expenses mainly due to higher headcount in our Search and Content, primarily as a result of the HSW acquisition, and Tax Preparation businesses.

Nine months ended September 30, 2014 compared with nine months ended September 30, 2013

Engineering and technology expenses increased, of which \$4.0 million was attributable to Monoprice (excluding stock-based compensation) and primarily related to the timing of the Monoprice acquisition. The remaining increase primarily was due to a \$2.4 million increase in personnel expenses mainly due to higher headcount in our Search and Content, primarily as a result of the HSW acquisition, and Tax Preparation businesses.

**Sales and Marketing**

(In thousands, except percentages)	Three months ended September 30,			Nine months ended September 30,		
	2014	2013	Change	2014	2013	Change
Sales and marketing	\$18,152	\$18,230	\$(78)	\$96,275	\$71,409	\$24,866
Percentage of revenues	16	% 15	%	20	% 18	%

Sales and marketing expenses consist principally of marketing expenses associated with our TaxACT and Monoprice websites (which include television, radio, online, text, and email channels), our owned and operated web search properties (which consist of traffic acquisition, including our online marketing fees paid to search engines to drive traffic to an owned and operated website, agency fees, brand promotion expense, and market research expense), personnel expenses (which include salaries, stock-based compensation, benefits, and other employee-related costs) for personnel engaged in marketing and selling activities, and fulfillment expenses primarily associated with our E-Commerce business. Fulfillment expenses include direct operating expenses (including personnel) relating to our purchasing, customer and technical support, receiving, inspection and warehouse functions, as well as the cost of temporary help and contractors, and credit card processing fees.

Three months ended September 30, 2014 compared with three months ended September 30, 2013

Sales and marketing expenses were comparable to the prior period, of which the change included \$3.8 million attributable to Monoprice (excluding stock-based compensation) and primarily related to the timing of the Monoprice acquisition, offset by a \$3.6 million decrease in marketing expenses in our Search and Content segment driven by decreased online marketing.

Nine months ended September 30, 2014 compared with nine months ended September 30, 2013

Table of Contents

Sales and marketing expenses increased, of which \$15.8 million was attributable to Monoprice (excluding stock-based compensation) and primarily related to the timing of the Monoprice acquisition. The remaining increase primarily was due to an \$8.0 million increase in marketing expenses in our Search and Content and Tax Preparation businesses and a \$0.5 million increase in personnel expenses. The increase in marketing expenses was driven by increased online marketing by our Search and Content segment and, to a lesser extent, increased marketing campaign activity for the current tax season by our Tax Preparation segment. Personnel expenses increased primarily due to higher headcount in our Tax Preparation business.

## General and Administrative

(In thousands, except percentages)	Three months ended September 30,			Nine months ended September 30,		
	2014	2013	Change	2014	2013	Change
General and administrative	\$9,495	\$8,421	\$1,074	\$28,552	\$21,362	\$7,190
Percentage of revenues	8	% 7	%	6	% 5	%

General and administrative (“G&A”) expenses consist primarily of personnel expenses (which include salaries, stock-based compensation, benefits, and other employee-related costs), as well as the cost of temporary help and contractors to augment our staffing, professional service fees (which include legal, audit, and tax fees), general business development and management expenses, occupancy and general office expenses, and taxes and insurance expenses.

Three months ended September 30, 2014 compared with three months ended September 30, 2013

G&A expenses increased, of which \$0.9 million was attributable to Monoprice (excluding stock-based compensation) and primarily related to the timing of the Monoprice acquisition.

Nine months ended September 30, 2014 compared with nine months ended September 30, 2013

G&A expenses increased, of which \$4.6 million was attributable to Monoprice (excluding stock-based compensation) and included a \$1.2 million charge related to the Restricted Cash Agreement of Mr. Kumar and the impact of the timing of the Monoprice acquisition. The remaining increase primarily was due to a \$2.1 million increase in personnel expenses. The increase in personnel expenses consisted of an increase in salaries, benefits, and other employee-related costs attributable to increased headcount in the current year to support operations and employee separation costs of \$0.4 million related to Mr. Kumar's employment agreement.

## Depreciation and Amortization of Intangible Assets

(In thousands, except percentages)	Three months ended September 30,			Nine months ended September 30,		
	2014	2013	Change	2014	2013	Change
Depreciation	\$1,085	\$697	\$388	\$3,278	\$1,738	\$1,540
Amortization of intangible assets	6,118	4,184	1,934	17,463	10,521	6,942
Total depreciation and amortization of intangible assets	\$7,203	\$4,881	\$2,322	\$20,741	\$12,259	\$8,482
Percentage of revenues	6	% 4	%	4	% 3	%

Depreciation of property and equipment includes depreciation of computer equipment and software, office equipment and furniture, heavy equipment, and leasehold improvements not recognized in cost of revenues. Amortization of intangible assets primarily includes the amortization of customer relationships, which are amortized over their estimated lives.

Three months ended September 30, 2014 compared with three months ended September 30, 2013

Depreciation increased primarily due to depreciation expense on fixed assets attributable to Monoprice.

Amortization of intangible assets increased primarily due to amortization expense related to intangibles acquired as part of the Monoprice and HSW acquisitions.

Nine months ended September 30, 2014 compared with nine months ended September 30, 2013

Depreciation increased primarily due to depreciation expense on fixed assets attributable to Monoprice.

Table of Contents

Amortization of intangible assets increased primarily due to amortization expense related to intangibles acquired as part of the Monoprice and HSW acquisitions.

## Other Loss, Net

(In thousands)	Three months ended September 30,			Nine months ended September 30,		
	2014	2013	Change	2014	2013	Change
Interest income	\$(71 )	\$(42 )	\$(29 )	\$(267 )	\$(206 )	\$(61 )
Interest expense	2,706	2,669	37	8,485	6,707	1,778
Amortization of debt issuance costs	288	258	30	853	841	12
Accretion of debt discounts	931	862	69	2,753	1,972	781
Loss on debt extinguishment and modification expense	—	1,593	(1,593 )	—	1,593	(1,593 )
Loss on derivative instrument	—	3,956	(3,956 )	—	5,931	(5,931 )
Impairment of equity investment in privately-held company	—	3,711	(3,711 )	—	3,711	(3,711 )
Decrease in pre-acquisition liability	(665 )	—	(665 )	(665 )	—	(665 )
Other	19	111	(92 )	(158 )	(122 )	(36 )
Other loss, net	\$3,208	\$13,118	\$(9,910 )	\$11,001	\$20,427	\$(9,426 )

Three months ended September 30, 2014 compared with three months ended September 30, 2013

Loss on debt extinguishment and modification expense related to the TaxACT credit facility refinancing in August 2013. Refer to "Note 6: Debt" of the Notes to Unaudited Condensed Consolidated Financial Statements in Part I Item 1 of this report.

On November 21, 2013, the Warrant to purchase 1.0 million shares of Blucora common stock issued in August 2011 was exercised in full. The change in the fair value of the Warrant, driven by the change in the value of our common stock, resulted in a \$4.0 million loss on derivative instrument during the three months ended September 30, 2013.

Refer to "Note 2: Summary of Significant Accounting Policies" and "Note 8: Stockholders' Equity" of the Notes to Unaudited Condensed Consolidated Financial Statements in Part I Item 1 of this report.

In 2013, in connection with a review of our equity method investments for other-than-temporary impairment, we determined that our equity investment in a privately-held company had experienced an other-than-temporary decline in value, due to recurring losses from operations, significant personnel reductions, and a change in the underlying business model. Accordingly, we wrote down the \$3.7 million carrying value of the investment to zero, resulting in a loss.

The sellers of Monoprice are entitled to federal and state tax refunds related to pre-acquisition tax periods pursuant to the purchase agreement. During the three months ended September 30, 2014, we adjusted the refunds due to the sellers after finalizing Monoprice's 2013 federal and state tax returns. As a result, we recorded a \$0.7 million gain.

Nine months ended September 30, 2014 compared with nine months ended September 30, 2013

The increase in interest expense, amortization of debt issuance costs, and accretion of debt discounts primarily related to the Convertible Senior Notes issued in March 2013 and the Monoprice credit facility entered into in November 2013, offset by decreases in the same categories due to the TaxACT credit facility refinancing in August 2013 and payments of the related principal balance in 2014.

Loss on debt extinguishment and modification expense related to the TaxACT credit facility refinancing in August 2013.

The change in the fair value of the Warrant, driven by the change in the value of our common stock, resulted in a \$5.9 million loss on derivative instrument during the nine months ended September 30, 2013.

In 2013, we wrote down the \$3.7 million carrying value of our equity investment in a privately-held company to zero, resulting in a loss.

During the three months ended September 30, 2014, we adjusted the refunds due to the Monoprice sellers and recorded a \$0.7 million gain.



Table of Contents

## Income Taxes

We recorded an income tax benefit of \$2.3 million and income tax expense of \$17.6 million in the three and nine months ended September 30, 2014, respectively. We recorded an income tax benefit of \$0.5 million and income tax expense of \$17.8 million in the three and nine months ended September 30, 2013, respectively. In 2014, income tax expense differed from taxes at the statutory rates primarily due to additional state taxes attributable to Monoprice and HSW. In 2013, income tax expense differed from taxes at the statutory rates primarily due to the non-deductible loss on the Warrant derivative and an increase in the valuation allowance against deferred tax assets that were capital in nature.

## NON-GAAP FINANCIAL MEASURES

**Adjusted EBITDA:** We define Adjusted EBITDA as net income, determined in accordance with GAAP, excluding the effects of income taxes, depreciation, amortization of intangible assets, stock-based compensation, and other loss, net (which primarily includes items such as interest income, interest expense, amortization of debt issuance costs, accretion of debt discounts, loss on debt extinguishment and modification expense, loss on derivative instrument, other-than-temporary impairment loss on equity investments, and adjustments to contingent liabilities related to business combinations).

We believe that Adjusted EBITDA provides meaningful supplemental information regarding our performance. We use this non-GAAP financial measure for internal management and compensation purposes, when publicly providing guidance on possible future results, and as a means to evaluate period-to-period comparisons. We believe that Adjusted EBITDA is a common measure used by investors and analysts to evaluate our performance, that it provides a more complete understanding of the results of operations and trends affecting our business when viewed together with GAAP results, and that management and investors benefit from referring to this non-GAAP financial measure. Items excluded from Adjusted EBITDA are significant and necessary components to the operations of our business and, therefore, Adjusted EBITDA should be considered as a supplement to, and not as a substitute for or superior to, GAAP net income. Other companies may calculate Adjusted EBITDA differently and, therefore, our Adjusted EBITDA may not be comparable to similarly titled measures of other companies. A reconciliation of our Adjusted EBITDA to net income, which we believe to be the most comparable GAAP measure, is presented below:

(In thousands)	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Net income (loss)	\$(2,238)	\$(6,481)	\$32,486	\$25,533
Stock-based compensation	2,608	3,252	8,974	8,490
Depreciation and amortization of intangible assets	9,378	7,216	27,298	19,413
Other loss, net	3,208	13,118	11,001	20,427
Income tax (benefit) expense	(2,294)	(510)	17,579	17,803
Adjusted EBITDA	\$10,662	\$16,595	\$97,338	\$91,666

Three months ended September 30, 2014 compared with three months ended September 30, 2013

The decrease in Adjusted EBITDA was due to decreases in segment operating income of \$8.6 million related to our Search and Content segment and \$0.3 million related to our Tax Preparation segment, offset by an increase of \$2.4 million from our E-Commerce segment primarily related to the timing of the Monoprice acquisition. Offsetting the net decrease in segment operating income was a \$0.5 million decrease in corporate operating expenses not allocated to the segments primarily related to transaction expenses associated with the Monoprice acquisition in August 2013.

Nine months ended September 30, 2014 compared with nine months ended September 30, 2013

The increase in Adjusted EBITDA was due to increases in segment operating income of \$9.1 million related to growth in our Tax Preparation segment and \$8.3 million from our E-Commerce segment primarily related to the timing of the Monoprice acquisition, offset by a decrease in segment operating income of \$11.5 million related to our Search and Content segment. Offsetting the net increase in segment operating income was a \$0.2 million increase in corporate operating expenses not allocated to the segments primarily due to employee separation costs.

**Non-GAAP net income:** We define non-GAAP net income differently for this report than we have defined it in the past, due to adjustments recorded in other loss, net that resulted from finalizing Monoprice's 2013 federal and state tax



returns in the third quarter of 2014. For this report, we define non-GAAP net income as net income, determined in accordance with GAAP,

- 30 -

---

Table of Contents

excluding the effects of stock-based compensation, amortization of acquired intangible assets, accretion of debt discount on the Convertible Senior Notes, loss on debt extinguishment and modification expense, loss on derivative instrument, other-than-temporary impairment loss on equity investments, changes in non-cash pre-acquisition liabilities, and the related cash tax impact of those adjustments, and non-cash income taxes. We exclude the non-cash portion of income taxes because of our ability to offset a substantial portion of our cash tax liabilities by using deferred tax assets, which primarily consist of U.S. federal net operating losses. The majority of these deferred tax assets will expire, if unutilized, between 2020 and 2024.

We believe that non-GAAP net income and non-GAAP net income per share provide meaningful supplemental information to management, investors, and analysts regarding our performance and the valuation of our business by excluding items in the statement of operations that we do not consider part of our ongoing operations or have not been, or are not expected to be, settled in cash. Additionally, we believe that non-GAAP net income and non-GAAP net income per share are common measures used by investors and analysts to evaluate our performance and the valuation of our business. Non-GAAP net income should be evaluated in light of our financial results prepared in accordance with GAAP and should be considered as a supplement to, and not as a substitute for or superior to, GAAP net income. Other companies may calculate non-GAAP net income differently, and, therefore, our non-GAAP net income may not be comparable to similarly titled measures of other companies. A reconciliation of our non-GAAP net income to net income, which we believe to be the most comparable GAAP measure, is presented below:

(In thousands, except per share amounts)	Three months ended		Nine months ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Net income (loss)	\$(2,238	) \$(6,481	) \$32,486	\$25,533
Stock-based compensation	2,608	3,252	8,974	8,490
Amortization of acquired intangible assets	7,993	6,090	23,104	16,294
Accretion of debt discount on Convertible Senior Notes	907	843	2,671	1,816
Loss on debt extinguishment and modification expense	—	1,593	—	1,593
Loss on derivative instrument	—	3,956	—	5,931
Impairment of equity investment in privately-held company	—	3,711	—	3,711
Decrease in non-cash pre-acquisition liability	(665	) —	(665	) —
Cash tax impact of adjustments to GAAP net income	(44	) (1	) (295	) (181
Non-cash income tax (benefit) expense	(2,017	) 7	14,180	16,412
Non-GAAP net income	\$6,544	\$12,970	\$80,455	\$79,599
Per diluted share:				
Net income (loss)	\$(0.05	) \$(0.16	) \$0.75	\$0.60
Stock-based compensation	0.06	0.08	0.21	0.20
Amortization of acquired intangible assets	0.19	0.14	0.53	0.38
Accretion of debt discount on Convertible Senior Notes	0.02	0.02	0.06	0.04
Loss on debt extinguishment and modification expense	—	0.04	—	0.04
Loss on derivative instrument	—	0.09	—	0.13
Impairment of equity investment in privately-held company	—	0.09	—	0.09
Decrease in non-cash pre-acquisition liability	(0.02	) —	(0.01	) —
Cash tax impact of adjustments to GAAP net income	(0.00	) (0.00	) (0.01	) (0.00
Non-cash income tax (benefit) expense	(0.05	) 0.00	0.33	0.38
Non-GAAP net income per share	\$0.15	\$0.30	\$1.86	\$1.86
Weighted average shares outstanding used in computing diluted non-GAAP income per share and its components	42,305	43,142	43,303	42,878
Three months ended September 30, 2014 compared with three months ended September 30, 2013				

The decrease in non-GAAP net income primarily was due to a decrease in segment operating income of \$8.6 million related to our Search and Content segment and \$0.3 million related to our Tax Preparation segment, offset by an increase in segment operating income of \$2.4 million from our E-Commerce segment primarily related to the timing of the Monoprice acquisition. This net decrease was offset by a \$0.5 million decrease in corporate operating expenses not allocated to the segments primarily related to transaction expenses associated with the Monoprice acquisition in August 2013.

Nine months ended September 30, 2014 compared with nine months ended September 30, 2013

- 31 -

---

Table of Contents

The increase in non-GAAP net income primarily was due to increases in segment operating income of \$9.1 million related to growth in our Tax Preparation segment and \$8.3 million from our E-Commerce segment primarily related to the timing of the Monoprice acquisition, offset by a decrease in segment operating income of \$11.5 million related to our Search and Content segment. Offsetting the net increase in segment operating income were a \$2.1 million increase in cash income tax expense primarily due to additional state taxes attributable to Monoprice and HSW, a \$1.8 million increase in interest expense related to the Convertible Senior Notes issued in March 2013 and the Monoprice credit facility entered into in November 2013, offset by decreased interest expense on the TaxACT credit facility refinancing in August 2013 and payments of the related principal balance in 2014, a \$1.1 million increase in depreciation expense primarily due to depreciation expense on fixed assets attributable to Monoprice, and a \$0.2 million increase in corporate operating expenses not allocated to the segments primarily due to employee separation costs.

**LIQUIDITY AND CAPITAL RESOURCES****Cash, Cash Equivalents, and Short-Term Investments**

Our principal source of liquidity is our cash, cash equivalents, and short-term investments. As of September 30, 2014, we had cash and marketable investments of approximately \$280.4 million, consisting of cash and cash equivalents of \$60.2 million and available-for-sale investments of \$220.2 million. We generally invest our excess cash in high quality marketable investments. These investments include debt securities issued by U.S. and international government agencies, money market funds, commercial paper, time deposits, corporate bonds, and municipal bonds, as well as equity securities. A significant portion of our financial instrument investments held at September 30, 2014 had minimal default risk and short-term maturities.

We have financed our operations primarily from cash provided by operating activities. Accordingly, we believe that the cash generated from our operations and the cash and cash equivalents we have on hand will be sufficient to meet our operating, working capital, and capital expenditure requirements for at least the next 12 months. However, the underlying levels of revenues and expenses that we project may not prove to be accurate. For further discussion of the risks to our business related to liquidity, see the paragraph in our Risk Factors (Part II Item 1A of this report) under the heading “Existing cash and cash equivalents, short-term investments, and cash generated from operations may not be sufficient to meet our anticipated cash needs for servicing debt, working capital and capital expenditures.”

**Use of Cash**

We may use our cash, cash equivalents, and short-term investments balance in the future on investment in our current businesses, in acquiring new businesses or assets, for repayment of debt, or for stock repurchases. Such businesses or assets may not be related to Search and Content, Tax Preparation, or E-Commerce, and such acquisitions will result in further transaction-related costs. We currently are focused on the following areas: enhancing the search and content services and tax preparation services and products offered to our end users, maintaining and adding search distribution partners and tax preparation customers, expanding and diversifying our tax preparation and e-commerce offerings, increasing the number of e-commerce orders through customer and geographic expansion and marketing investment, and building our e-commerce brand recognition.

On May 30, 2014, InfoSpace acquired HSW for \$44.9 million in cash, which was funded from our available cash.

On August 30, 2013, TaxACT entered into an agreement to refinance a 2012 credit facility on more favorable terms. Under that 2012 credit facility, TaxACT borrowed \$100.0 million, of which \$25.5 million was repaid in 2012, \$10.0 million in April 2013, and the remaining \$64.5 million in August 2013, the latter amount in connection with the refinancing of this credit agreement. The new 2013 credit facility consists of a revolving credit commitment that reduced to \$90.0 million on August 30, 2014 and will reduce to \$80.0 million on August 30, 2015 and \$70.0 million on August 30, 2016. The final maturity date of the 2013 credit facility is August 30, 2018. The interest rate is variable, based upon choices from which TaxACT elects. The 2013 credit facility includes financial and operating covenants with respect to certain ratios, including leverage ratio and fixed charge coverage ratio, which are defined further in the agreement. We were in compliance with these covenants as of September 30, 2014. TaxACT borrowed approximately \$71.4 million under the 2013 credit facility, of which \$65.4 million was used to pay off the 2012 credit facility and \$6.0 million was an additional draw in October 2013. TaxACT had net repayment activity of \$52.0 million during the nine months ended September 30, 2014. For further detail, see “Note 6: Debt” of the Notes to Unaudited Condensed Consolidated Financial Statements in Part I Item 1 of this report.

On August 22, 2013, we acquired Monoprice for \$182.9 million in cash. The acquisition of Monoprice was funded from our available cash. On November 22, 2013, Monoprice entered into a \$70.0 million credit facility agreement for the purposes of post-transaction financing of the Monoprice acquisition and providing future working capital flexibility for Monoprice. The

- 32 -

---

Table of Contents

final maturity date of the credit facility is November 22, 2018. The interest rate is variable, based upon choices from which Monoprice elects. The credit facility includes financial and operating covenants with respect to certain ratios, including leverage ratio and fixed charge coverage ratio, which are defined further in the agreement. We were in compliance with these covenants as of September 30, 2014. Monoprice borrowed \$50.0 million under the credit facility, receiving net proceeds of approximately \$49.3 million. Monoprice repaid \$6.0 million during the nine months ended September 30, 2014. For further detail, see “Note 6: Debt” of the Notes to Unaudited Condensed Consolidated Financial Statements in Part I Item 1 of this report.

On March 15, 2013, we issued \$201.25 million principal amount of Convertible Senior Notes (the “Notes”). The Notes are due April 1, 2019, unless earlier purchased, redeemed, or converted in accordance with their terms. The Notes bear interest at a rate of 4.25% per year, payable semi-annually in arrears beginning on October 1, 2013. We received net proceeds from the offering of approximately \$194.8 million. There are no financial or operating covenants relating to the Notes. As of May 2013, we are permitted to settle any conversion obligation under the Notes in cash, shares of our common stock, or a combination of cash and shares of our common stock, at our election. We intend to satisfy any conversion premium by issuing shares of our common stock. For further detail, see “Note 6: Debt” of the Notes to Unaudited Condensed Consolidated Financial Statements in Part I Item 1 of this report.

Our Board of Directors approved a stock repurchase program whereby we may purchase our common stock in open-market transactions. In May 2014, our Board of Directors increased the repurchase authorization, such that we may repurchase up to \$85.0 million of our common stock, and extended the repurchase period through May 2016. During the nine months ended September 30, 2014, we purchased 1.7 million shares in open-market transactions at a total cost of approximately \$29.9 million and an average price of \$17.68 per share, exclusive of purchase and administrative costs. As of September 30, 2014, we may repurchase an additional \$45.2 million, which also takes into consideration share repurchases during 2013 of \$10.0 million, of our common stock under the repurchase program. For further detail, see “Note 8: Stockholders’ Equity” of the Notes to Unaudited Condensed Consolidated Financial Statements in Part I Item 1 of this report.

**Contractual Obligations and Commitments**

There have been no material changes during the period covered by this Quarterly Report on Form 10-Q, outside of the ordinary course of our business, to the contractual obligations and commitments specified in “Note 9: Commitments and Contingencies” in Part II Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2013.

**Off-balance Sheet Arrangements**

We have no off-balance sheet arrangements other than operating leases.

**Cash Flows**

Our cash flows were comprised of the following:

(In thousands)	Nine months ended September 30,	
	2014	2013
Net cash provided by operating activities	\$51,158	\$66,685
Net cash used by investing activities	(64,321	) (243,757
Net cash provided (used) by financing activities	(56,868	) 206,615
Net increase (decrease) in cash and cash equivalents	\$(70,031	) \$29,543

Net cash from operating activities: Net cash from operating activities consists of net income, offset by certain non-cash adjustments, and changes in our working capital.

Net cash provided by operating activities was \$51.2 million and \$66.7 million for the nine months ended September 30, 2014 and 2013, respectively. The activity in the nine months ended September 30, 2014 included approximately \$30.1 million of net income (offset by non-cash adjustments) and a \$21.0 million working capital contribution. The working capital contribution continued to be driven by accrued expenses and the impact of excess tax benefits from stock-based activity primarily due to utilizing equity net operating loss carryforwards from prior years, offset by reduced payable and accrual balances related to Monoprice inventory purchases and the Search and Content business’s online marketing spending. Accounts receivable and accounts payable reflected lower Search and Content distribution revenue and the resulting revenue share to our distribution partners.



Table of Contents

The activity in the nine months ended September 30, 2013 included approximately \$37.4 million of net income (offset by non-cash adjustments) and a \$29.2 million working capital contribution. The working capital contribution was driven by accrued expenses and the impact of excess tax benefits from stock-based activity, decreases in prepaid expenses and other current assets due to the timing of TaxACT's spending on marketing campaigns for the tax season, increased accrual balances related to our Search and Content business's online marketing spending, and the working capital contribution from Monoprice which was acquired in August 2013. Accounts receivable and accounts payable reflected higher Search and Content distribution revenue and the resulting revenue share to our distribution partners. Net cash from investing activities: Net cash from investing activities primarily consists of cash outlays for business acquisitions, transactions (purchases, as well as proceeds from sales and maturities) related to our investments, and purchases of property and equipment. Our investing activities tend to fluctuate from period to period primarily based upon the level of acquisition activity.

Net cash used by investing activities was \$64.3 million and \$243.8 million for the nine months ended September 30, 2014 and 2013, respectively. The activity in the nine months ended September 30, 2014 primarily consisted of the acquisition of HSW for \$44.9 million, net cash outlays on our available-for-sale investments of \$15.1 million, and \$4.2 million in purchases of property and equipment. The activity in the nine months ended September 30, 2013 primarily consisted of the acquisition of Monoprice for \$180.5 million (net of cash acquired), net cash outlays on our available-for-sale investments of \$58.7 million, a \$4.0 million investment in a privately-held company, and \$3.1 million in purchases of property and equipment.

Net cash from financing activities: Net cash from financing activities primarily consists of transactions related to the issuance of debt and stock. Our financing activities tend to fluctuate from period to period based upon our financing needs due to the level of acquisition activity and market conditions that present favorable financing opportunities.

Net cash used by financing activities was \$56.9 million for the nine months ended September 30, 2014 compared to net cash provided by financing activities of \$206.6 million for the nine months ended September 30, 2013. The activity for the nine months ended September 30, 2014 primarily consisted of combined payments of \$62.0 million on the Monoprice and TaxACT 2013 credit facilities, stock repurchases of \$29.9 million, and \$2.6 million in tax payments from shares withheld upon vesting of restricted stock units. This cash outflow was offset by \$29.8 million in excess tax benefits from stock-based award activity primarily due to utilizing equity net operating loss carryforwards from prior years, \$4.0 million in proceeds from the TaxACT 2013 credit facility, and \$3.8 million in combined proceeds from the issuance of common stock related to stock option exercises and the employee stock purchase plan. The activity for the nine months ended September 30, 2013 primarily consisted of \$194.8 million in net proceeds from the issuance of the Notes, \$24.6 million in excess tax benefits from stock-based award activity primarily due to utilizing equity net operating loss carryforwards from prior years, and \$2.8 million in combined proceeds from the issuance of common stock related to stock option exercises and the employee stock purchase plan. This cash inflow was offset by payment of \$10.0 million on the TaxACT 2013 credit facility, stock repurchases of \$3.5 million, and \$2.0 million in tax payments from shares withheld upon vesting of restricted stock units.

**Critical Accounting Policies and Estimates**

The preparation of financial statements in conformity with GAAP requires that we make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses, and disclosure of contingencies. We base our estimates on historical experience and other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates. Our critical accounting policies, estimates, and methodologies for the nine months ended September 30, 2014 were consistent with those in Part II Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2013.

**Recent Accounting Pronouncements**

See "Note 2: Summary of Significant Accounting Policies" of the Notes to Unaudited Condensed Consolidated Financial Statements in Part I Item 1 of this report.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**



Table of Contents

Except as noted below, there have been no material changes to our market risk during the nine months ended September 30, 2014. For additional information, see Part II Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2013.

Equity price risk: As part of the acquisition of HSW in the second quarter of 2014, we acquired marketable equity securities. Market prices for equity securities are subject to fluctuation, and consequently, the amount realized in the subsequent sale of an investment may significantly differ from the current market value. Fluctuation in the market price of an equity security may result from perceived changes in the underlying economic characteristics of the investee, the relative price of alternative investments, and general market conditions.

The following table summarizes our equity securities and equity price risk as of September 30, 2014, including the effects of a hypothetical 30% increase and a 30% decrease in market prices as of that date. The selected 30% hypothetical changes do not reflect what could be considered the best or worst case scenarios. Results could be far worse due to, among other things, the underlying economic characteristics of the investee and the nature of equity markets.

(In thousands, except percentages)	September 30, 2014	
Fair value of equity securities	\$4,591	
Hypothetical price increase	30	%
Estimated fair value after hypothetical price increase	\$5,969	
Hypothetical percentage increase in stockholders' equity	0.25	%
Hypothetical price decrease	(30	)%
Estimated fair value after hypothetical price decrease	\$3,214	
Hypothetical percentage decrease in stockholders' equity	(0.25	)%

## Item 4. Controls and Procedures

## Evaluation of Disclosure Controls and Procedures

Our management evaluated, with the participation of our Chief Executive Officer and our Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective at providing reasonable assurance that information we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934 is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure, and that such information is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms.

## Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the third quarter of 2014 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

We acquired Monoprice on August 22, 2013. We are assessing the internal controls of Monoprice but do not believe that those controls have materially affected, or are likely to materially affect, our internal controls over financial reporting.

Table of Contents

**PART II—OTHER INFORMATION**

**Item 1. Legal Proceedings**

See “Note 7: Commitments and Contingencies” of the Notes to Unaudited Condensed Consolidated Financial Statements in Part I Item 1 of this report.

**Item 1A. Risk Factors**

**RISKS COMMON TO ALL OF OUR BUSINESSES**

Future revenue growth depends upon our ability to adapt to technological change and successfully introduce new and enhanced products and services.

The online service, software, and e-commerce industries are characterized by rapidly changing technology, evolving industry standards, and frequent new product introductions. Our competitors in the Search and Content, Tax Preparation, and E-Commerce segments offer new and enhanced products and services every year, and customer expectations change as a result. We must successfully innovate and develop new products and features to meet changing customer needs and expectations, and we must continually update our technology infrastructure. We will need to devote significant resources to continue to develop our skills, tools, and capabilities to capitalize on existing and emerging technologies. Our inability to successfully introduce new and enhanced products and services on a timely basis, or to successfully evolve our technology infrastructure, could harm our business and financial results. Our products and services have historically been provided through desktop computers, but the number of people who access similar products and services through mobile devices, such as smartphones and tablets, has increased dramatically in the past few years. We have limited experience to date in developing products and services for users of these alternative devices, and the versions of our products and services developed for these devices may not be compelling to users. As new devices and new platforms are continually being released, it is difficult to predict the problems we may encounter in developing versions of our products and services for use on these alternative devices, and we may need to devote significant resources to the creation, support, and maintenance of such offerings. If we are slow to develop products and services that are compatible with these alternative devices, particularly if we cannot do so as quickly as our competitors, we will fail to maintain or grow our share of the markets in which we compete. In addition, such new products and services may not succeed in the marketplace, resulting in lost market share, wasted development costs, and damage to our brands.

Our business depends on our strong reputation and the value of our brands.

Developing and maintaining awareness of our brands is critical to achieving widespread acceptance of our existing and future products and services and is an important element in attracting new customers. Adverse publicity (whether or not justified) relating to events or activities attributed to our businesses, our employees, our vendors, or our partners may tarnish our reputation and reduce the value of our brands. Damage to our reputation and loss of brand equity may reduce demand for our products and services and have an adverse effect on our future financial results. Such damage also would require additional resources to rebuild our reputation and restore the value of the brands.

Our website and transaction management software, data center systems, or the systems of third-party co-location facilities and cloud service providers could fail or become unavailable, which could harm our reputation and result in a loss of revenues and current or potential customers.

Any system interruptions that result in the unavailability or unreliability of our websites, transaction processing systems, or network infrastructure could reduce our revenue and impair our ability to properly process transactions. We use internally developed and third-party systems, including cloud computing and storage systems, for our online services and certain aspects of transaction processing. Some of our systems are relatively new and untested, and thus may be subject to failure or unreliability. Any system unavailability or unreliability may cause unanticipated system disruptions, slower response times, degradation in customer satisfaction, additional expense, or delays in reporting accurate financial information.

Our data centers and cloud service could be susceptible to damage or disruption, which could have a material adverse effect on our business. Our Search and Content and E-Commerce businesses rely on third-party co-location facilities and cloud service providers. Although these third party services provide some redundancy, not all of our systems and operations have backup redundancy. Our TaxACT business has a disaster recovery center that we built in late 2012 and have tested, but if the



Table of Contents

primary data center fails and the disaster recovery center fails to fully restore the failed environments, our TaxACT business will suffer, particularly if such interruption occurs during the “tax season.”

Our systems and operations, and those of our third-party service providers, could be damaged or interrupted by fire, flood, earthquakes, other natural disasters, power loss, telecommunications failure, internet breakdown, break-in, human error, software bugs, hardware failures, malicious attacks, computer viruses, computer denial of service attacks, terrorist attacks, or other events beyond our control. Such damage or interruption may affect internal and external systems that we rely upon to provide our services, take and fulfill customer orders, handle customer service requests, and host other products and services. During the period in which services are unavailable, we will be unable or severely limited in our ability to generate revenues, and we may also be exposed to liability from those third parties to whom we provide services. We could face significant losses as a result of these events, and our business interruption insurance may not be adequate to compensate us for all potential losses. For these reasons, our business and financial results could be materially harmed if our systems and operations are damaged or interrupted.

If the volume of traffic to our infrastructure increases substantially, we must respond in a timely fashion by expanding our systems, which may entail upgrading our technology, transaction processing systems, and network infrastructure. Our ability to support our expansion and upgrade requirements may be constrained due to our business demands or constraints of our third-party co-location facility providers and cloud service providers. Due to the number of our customers and the services that we offer, we could experience periodic capacity constraints that may cause temporary unanticipated system disruptions, slower response times and lower levels of customer service, and limit our ability to develop, offer, or release new or enhanced products and services. Our business could be harmed if we are unable to accurately project the rate or timing of increases, if any, in the use of our services, or we fail to adequately expand and upgrade our systems and infrastructure to accommodate these increases.

The security measures we have implemented to secure confidential and personal information may be breached, and such a breach may pose risks to the uninterrupted operation of our systems, expose us to mitigation costs, litigation, potential investigation and penalties by authorities, potential claims by persons whose information was disclosed, and damage our reputation.

Our networks and those from our third-party service providers may be vulnerable to unauthorized access by hackers, rogue employees or contractors, computer viruses, and other disruptive problems. A person who is able to circumvent security measures could misappropriate proprietary information or personal information or cause interruptions in our operations. Unauthorized access to, or abuse of, this information could result in significant harm to our business.

We collect and retain certain sensitive personal data. Our TaxACT business collects, uses, and retains large amounts of customer personal and financial information, including information regarding income, family members, credit cards, tax returns, bank accounts, social security numbers, and healthcare. Our Search and Content services receive, retain, and transmit certain personal information about our website visitors. Subscribers to some of our Search and Content services are required to provide information that may be considered to be personally identifiable or private information. Our E-Commerce business and its partners collect and retain certain information regarding its customers, including certain payment information, purchase information, e-mail addresses, and shipping addresses.

We are subject to laws, regulations, and industry rules relating to the collection, use, and security of user data. We expect regulation in this area to increase. As a result of such new regulation, our current data protection policies and practices may not be sufficient and may require modification. New regulations may also impose burdens that may require notification to customers or employees of a security breach, restrict our use of personal information, and hinder our ability to acquire new customers or market to existing customers. As our business continues to expand to new industry segments that may be more highly regulated for privacy and data security, our compliance requirements and costs may increase. We have incurred, and may continue to incur, significant expenses to comply with privacy and security standards and protocols imposed by law, regulation, industry standards, and contractual obligations.

A major breach of our systems or those of our third-party service providers may have serious negative consequences for our businesses, including possible fines, penalties and damages, reduced customer demand for our services, harm to our reputation and brands, further regulation and oversight by federal or state agencies, and loss of our ability to provide financial transaction services or accept and process customer credit card orders or tax returns. We may detect, or receive notices from customers or public or private agencies that they have detected, vulnerabilities in our servers,

our software or third-party software components that are distributed with our products. The existence of vulnerabilities, even if they do not result in a security breach, may harm customer confidence and require substantial resources to address, and we may not be able to discover or remediate such security vulnerabilities before they are exploited. In addition, hackers develop and deploy viruses,

- 37 -

---

Table of Contents

worms and other malicious software programs that may attack our offerings. Although we deploy network and application security measures, internal control measures, and physical security procedures to safeguard our systems, there can be no assurance that a security breach, intrusion, loss or theft of personal information will not occur, which may harm our business, customer reputation and future financial results and may require us to expend significant resources to address these problems, including notification under data privacy regulations.

We rely on the infrastructure of the Internet over which we have no control and the failure of which could substantially undermine our operations.

The success of our Search and Content, Tax Preparation, and E-Commerce businesses depends on the maintenance and expansion of the infrastructure of the Internet. In particular, we rely on other companies to maintain reliable network systems that provide adequate speed, data capacity, and security. As the Internet continues to experience growth in the number of users, frequency of use, and amount of data transmitted, the segments of the internet infrastructure that we rely on may be unable to support the demands placed upon it. The failure of any parts of the internet infrastructure that we rely on, even for a short period of time, would substantially undermine our operations and would have a material adverse effect on our business and financial results.

We regularly consider acquisition opportunities, and our financial and operating results may suffer if we are unsuccessful in completing any such acquisitions on favorable terms.

An important component of our strategy for future growth is to acquire new technologies and businesses. We may seek to acquire companies or assets that complement our existing businesses. We may also consider acquisitions of companies and assets that are not related to search, content, tax preparation, or e-commerce. We regularly explore such opportunities in the ordinary course of our business, and potential acquisition targets range in size from relatively small to a size comparable to our own, and, therefore, may be material to our business, financial condition, and results of operations. There can be no guarantee that any of the opportunities that we evaluate will result in the purchase by us of any business or asset being evaluated, or that if acquired, we will be able to successfully integrate such acquisition.

If we are successful in our pursuit of any acquisition opportunities, we intend to use available cash, debt and/or equity financings, and/or other capital or ownership structures designed to diversify our capital sources and attract a competitive cost of capital, all of which may change our leverage profile. There are a number of factors that impact our ability to succeed in acquiring the companies and assets we identify, including competition for these companies and assets, sometimes from larger or better-funded competitors. As a result, our success in completing acquisitions is not guaranteed. Our expectation is that, to the extent we are successful, any acquisitions will be additive to our business, taking into account potential benefits of diversification or operational synergies. However, these new business additions and acquisitions involve a number of risks and may not achieve our expectations; and, therefore, we could be adversely affected by any such new business additions or acquisitions. There can be no assurance that the short or long-term value of any business or technology that we develop or acquire will be equal to the value of the cash and other consideration that we paid or expenses we incurred.

Our financial and operating results may suffer if we are unsuccessful in integrating acquisitions we may complete, and any new businesses or technologies may not be complementary to our current operations or leverage our current infrastructure and operational experience.

Even if we are successful in identifying and completing acquisitions of new businesses or technologies, the process of integrating such new businesses and technologies involves numerous risks that could materially and adversely affect our results of operations or stock price, including:

- expenses related to the acquisition process, both for consummated and unconsummated transactions, and impairment charges to goodwill and other intangible assets related to certain acquisitions;
- diversion of management's or other key personnel's attention from current operations and other business concerns and potential strain on financial and managerial controls and reporting systems and procedures;
- disruption of our ongoing business or the ongoing acquired business, including impairment of existing relationships with the employees, distributors, suppliers, or customers of our existing businesses or those of the acquired companies;
-

difficulties in assimilating the operations, products, technology, information systems, and management and other personnel of acquired companies that result in unanticipated allocation of resources, costs, or delays;

- 38 -

---

Table of Contents

the dilutive effect on earnings per share as a result of issuances of stock, incurring operating losses, and the amortization of intangible assets for the acquired business;

- stock volatility due to the perceived value of the acquired business by investors;
- any debt incurred to finance acquisitions would increase costs, may increase volatility in our stock price, and could accelerate a decline in stockholder equity in the event of poor financial performance;
- diversion of capital from other uses;
- failure to achieve the anticipated benefits of the acquisitions in a timely manner, or at all;
- difficulties in acquiring foreign companies, including risks related to integrating operations across different cultures and languages, currency risks, and the particular economic, political, and regulatory risks associated with specific countries; and
- adverse outcome of litigation matters or other contingent liabilities assumed in or arising out of the acquisitions.

Developing or acquiring a business or technology, and then integrating it with our other operations, will be complex, time consuming, and expensive. The successful integration of an acquisition requires, among other things, that we: retain key personnel; maintain and support preexisting supplier, distribution, and customer relationships; and integrate accounting and support functions. The complexity of the technologies and operations being integrated and the disparate corporate cultures and/or industries being combined, may increase the difficulties of integrating an acquired technology or business. If our integration of acquired or internally developed technologies or businesses, including our recent acquisition of the Monoprice business, is not successful, we may experience adverse financial or competitive effects.

Our stock price has been highly volatile and such volatility may continue.

The trading price of our common stock has been highly volatile. Between October 1, 2012 and September 30, 2014, our closing stock price ranged from \$14.09 to \$29.82. On October 30, 2014, the closing price of our common stock was \$16.98. Our stock price could decline or fluctuate significantly in response to many factors, including the other risks discussed in this report and the following:

- actual or anticipated variations in quarterly and annual results of operations;
- announcements of significant acquisitions, dispositions, charges, changes in or loss of material contracts and relationships, or other business developments by us, our partners, or our competitors;
- conditions or trends in the search and content services, tax preparation, or e-commerce markets;
- changes in general conditions in the U.S. and global economies or financial markets;
- announcements of technological innovations or new services by us or our competitors;
- changes in financial estimates or recommendations by securities analysts;
- disclosures of any accounting issues, such as restatements or material weaknesses in internal control over financial reporting;
- equity issuances resulting in the dilution of stockholders;
- the adoption of new regulations or accounting standards; and
- announcements or publicity relating to litigation or governmental enforcement actions.

In addition, the market for technology company securities has experienced extreme price and volume fluctuations, and our stock has been particularly susceptible to such fluctuations. Often, class action litigation has been instituted against companies after periods of volatility in the price of such companies' stock. We are currently defendants in such class action



Table of Contents

litigation (see “Note 7: Commitments and Contingencies” of the Notes to Unaudited Condensed Consolidated Financial Statements in Part I Item 1 of this report), and even if we prevail in this litigation, it could result in substantial cost and diversion of management’s attention and resources.

Our financial results may fluctuate, which could cause our stock price to be volatile or decline.

Our financial results have varied on a quarterly basis and are likely to continue to fluctuate in the future. These fluctuations could cause our stock price to be volatile or decline. Many factors could cause our quarterly results to fluctuate materially, including but not limited to:

changes or potential changes in our relationships with Google or Yahoo! or future significant Search Customers, such as the effects of changes to their requirements or policies, changes in how they interpret or enforce their requirements or policies, the revenue share rates that they pay us, or their measurement of the quality of traffic that we send to their advertiser networks, and any resulting loss or reduction of content that we can use or provide to our distribution partners;

the loss, termination, or reduction in scope of key search distribution relationships as a result of, for example, distribution partners licensing content directly from our Search Customers or other content providers, or any suspension by our Search Customers (particularly Google) of the right to use or distribute content on the web properties of our distribution partners;

the inability of any of our businesses to meet our expectations;

- the extreme seasonality of our TaxACT business and the resulting large quarterly fluctuations in our revenues;

the success or failure of our strategic initiatives and our ability to implement those initiatives in a cost effective manner;

the mix of search services revenue generated by our owned and operated web properties versus our distribution partners’ web properties;

the mix of revenues generated by existing businesses, or other businesses we develop or acquire;

our, and our distribution partners’, ability to attract and retain quality traffic for our search services;

gains or losses driven by mark to market fair value accounting;

- litigation expenses and settlement costs;

expenses incurred in finding, negotiating, consummating, and integrating acquisitions;

variable demand for our services, rapidly evolving technologies and markets, and consumer preferences;

any restructuring charges we may incur;

any economic downturn, which may lead to lower online advertising revenue from advertisers on our Search and Content business, lower acceptance rates on premium products and services offered by our Tax Preparation business, and reduced sales for our E-Commerce business;

new court rulings, or the adoption of new laws, rules, or regulations, that adversely affect our ability to acquire content and distribute our search services, that adversely affect our tax preparation products and services, or that otherwise increase our potential liability or compliance costs;

impairment in the value of long-lived assets or the value of acquired assets, including goodwill, core technology, and acquired contracts and relationships; and

the effect of changes in accounting principles or standards or in our accounting treatment of revenues or expenses.

Table of Contents

For these reasons, among others, you should not rely on period-to-period comparisons of our financial results to forecast our future performance. Furthermore, our fluctuating operating results may fall below the expectations of securities analysts or investors and financial results volatility could make us less attractive to investors, either of which could cause the trading price of our stock to decline.

We sold \$201.25 million of Convertible Senior Notes in 2013, which may impact our financial results, result in the dilution of existing stockholders, and restrict our ability to take advantage of future opportunities.

In March 2013, we sold \$201.25 million aggregate principal amount of 4.25% Convertible Senior Notes (the “Notes”) due 2019. The accounting for the Notes will result in our having to recognize interest expense significantly more than the stated interest rate of the Notes and may result in volatility to our financial results. Upon issuance of the Notes, we were required to establish a separate initial value for the conversion option and bifurcate this value from the value attributable to the balance of the Notes, or the debt component. As a result, for accounting purposes, we were required to treat the Notes as having been issued with a discount to their face principal amount, which is referred to as debt discount. We are accreting the debt discount to interest expense ratably over the term of the Notes, which results in an effective interest rate in our consolidated statement of comprehensive income that is in excess of the stated coupon rate of the Notes. This will reduce our earnings and could adversely affect the price at which our common stock trades, but will have no effect on the amount of cash interest paid to holders or on our cash flows.

Our intent is to settle conversions of the Notes with cash for the principal amount of the debt and shares of common stock for any related conversion premium. Shares associated with the conversion premium will be included in diluted earnings per share when the average stock price exceeds the conversion price of the Notes and could adversely affect our diluted earnings per share and the price at which our common stock trades.

The conditional conversion feature of the Notes, if triggered, and the requirement to repurchase the Notes upon a fundamental change may adversely affect our financial condition and financial results. In the event the conditional conversion feature of the Notes is triggered, holders of the Notes will be entitled to convert the Notes at any time during specified periods at their option. If we undergo a fundamental change (as described in the applicable Indenture), subject to certain conditions, holders of the Notes may require us to repurchase for cash all or part of their Notes at a price equal to 100% of the principal amount of the Notes, plus accrued and unpaid interest.

The payment of the interest and the repayment of principal at maturity, conversion, or under a fundamental change will require the use of a substantial amount of our cash, and if such cash is not available, we may be required to sell other assets or enter into alternate financing arrangements at terms that may or may not be desirable. The existence of the Notes and the obligations we incurred by issuing them may restrict our ability to take advantage of certain future opportunities, such as engaging in future debt or equity financing activities, which may reduce or impair our ability to acquire new businesses or invest in our existing businesses.

We incurred debt in connection with our acquisitions of the Monoprice and TaxACT businesses, and may incur future debt related to other acquisitions, which may adversely affect our financial condition and future financial results.

In November 2013, Monoprice incurred debt as part of our acquisition of Monoprice’s business, of which \$44.0 million remained outstanding as of September 30, 2014. In addition, TaxACT incurred debt as part of our acquisition of TaxACT’s business, which was refinanced with a new credit agreement on August 30, 2013 and of which \$19.4 million remained outstanding as of September 30, 2014. Both are non-recourse debts that are guaranteed by Monoprice Holdings, Inc. and TaxACT Holdings, Inc., respectively, both of which are Blucora’s direct subsidiaries.

These debts may adversely affect our financial condition and future financial results by, among other things:

• increasing Monoprice’s or TaxACT’s vulnerability to downturns in their businesses, to competitive pressures, and to adverse economic and industry conditions;

• requiring the dedication of a portion of our expected cash from Monoprice’s and TaxACT’s operations to service the indebtedness, thereby reducing the amount of expected cash flow available for other purposes, including capital expenditures and acquisitions;

• requiring cash infusions from Blucora to Monoprice or TaxACT if either or both are unable to meet their payment or other obligations under the applicable credit facilities;

• increasing our interest payment obligations in the event that interest rates rise dramatically; and



Table of Contents

limiting our flexibility in planning for, or reacting to, changes in our businesses and our industries.

These credit facilities impose restrictions on Monoprice and TaxACT, including restrictions on their ability to create liens on their assets and on our ability to incur indebtedness, and require Monoprice and TaxACT to maintain compliance with specified financial ratios. Their ability to comply with these ratios may be affected by events beyond their control. In addition, these credit facilities include covenants, the breach of which may cause the outstanding indebtedness to be declared immediately due and payable. These debts, and our ability to repay them, may also negatively impact our ability to obtain additional financing in the future and may affect the terms of any such financing.

We or our subsidiaries may incur additional debt in the future to finance additional acquisitions or for other purposes. Such debt may result in risks similar to those discussed above related to the Monoprice and TaxACT debts, or in other risks specific to the credit agreements entered into for those debts.

Existing cash and cash equivalents, short-term investments, and cash generated from operations may not be sufficient to meet our anticipated cash needs for servicing debt, working capital and capital expenditures.

Although we believe that existing cash and cash equivalents, short-term investments, and cash generated from operations will be sufficient to meet our anticipated cash needs for servicing debt, working capital, and capital expenditures for at least the next 12 months, the underlying levels of revenues and expenses that we project may not prove to be accurate. In March 2013, we sold \$201.25 million aggregate principal amount of 4.25% Convertible Senior Notes due 2019. In addition, as of September 30, 2014, Monoprice and TaxACT had \$44.0 million and \$19.4 million outstanding, respectively, under the credit agreements entered into in November 2013 and August 2013, respectively. Servicing these debts will require the dedication of a portion of our expected cash flow from operations, thereby reducing the amount of our cash flow available for other purposes. In addition, our ability to make scheduled payments of the principal of, to pay interest on, or to refinance our indebtedness depends on our future performance, which is subject to economic, financial, competitive, and other factors beyond our control. Our businesses may not continue to generate cash flow from operations in the future sufficient to service our debt and make necessary capital expenditures. If we are unable to generate such cash flow, we may be required to adopt one or more alternatives, such as selling assets, restructuring debt, or obtaining additional equity capital on terms that may be onerous or highly dilutive. Our ability to refinance our indebtedness will depend on the capital markets and our financial condition at such time. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on our debt obligations.

In addition, we evaluate acquisitions of businesses, products, or technologies from time to time. Any such transactions, if completed, may use a significant portion of our cash balances and marketable investments. If we are unable to liquidate our investments when we need liquidity for acquisitions or for other business purposes, we may need to change or postpone such acquisitions or find alternative financing for such acquisitions. We may seek additional funding through public or private financings, through sales of equity, or through other arrangements. Our ability to raise funds may be adversely affected by a number of factors, including factors beyond our control, such as economic conditions in the markets in which we operate and increased uncertainty in the financial, capital, and credit markets. Adequate funds may not be available when needed or may not be available on favorable terms. If we raise additional funds by issuing equity securities, dilution to existing stockholders may result. If funding is insufficient at any time in the future, we may be unable, or delayed in our ability, to develop or enhance our products or services, take advantage of business opportunities, or respond to competitive pressures, any of which could harm our business. If others claim that our services infringe their intellectual property rights, we may be forced to seek expensive licenses, reengineer our services, engage in expensive and time-consuming litigation, or stop marketing and licensing our services.

Companies and individuals with rights relating to the technology and consumer electronics industries have frequently resorted to litigation regarding intellectual property rights. In some cases, the ownership or scope of an entity's or person's rights is unclear and may also change over time, including through changes in U.S. or international intellectual property laws or regulations or through court decisions or decisions by agencies or regulatory boards that manage such rights. These parties have in the past, and may in the future, make claims against us alleging infringement of patents, copyrights, trademarks, trade secrets, or other intellectual property or proprietary rights, or

alleging unfair competition or violations of privacy or publicity rights. Responding to any such claims could be time-consuming, result in costly litigation, divert management's attention, cause product or service release delays, require us to remove or redesign our products or services, require us to pay damages for infringement, or require us to enter into royalty or licensing agreements. Our technology, services, and products may not be able to withstand any third-party claims or rights against their use. If a successful claim of infringement was made against us

- 42 -

---

Table of Contents

and we could not develop non-infringing technology or content, or license the infringed or similar technology or content on a timely and cost-effective basis, our business could suffer.

We do not regularly conduct patent searches to determine whether the technology used in our products or services infringes patents held by third parties. Patent searches may not return every issued patent or patent application that may be deemed relevant to a particular product or service. It is therefore difficult to determine, with any level of certainty, whether a particular product or service may be construed as infringing a current or future U.S. or foreign patent.

We rely heavily on our technology and intellectual property, but we may be unable to adequately or cost-effectively protect or enforce our intellectual property rights, thus weakening our competitive position and negatively impacting our business and financial results. We may have to litigate to enforce our intellectual property rights, which can be time consuming, expensive, and difficult to predict.

To protect our rights in our services and technology, we rely on a combination of copyright and trademark laws, patents, trade secrets, confidentiality agreements with employees and third parties, and protective contractual provisions. We also rely on laws pertaining to trademarks and domain names to protect the value of our corporate brands and reputation. Despite our efforts to protect our proprietary rights, unauthorized parties may copy aspects of our services or technology, obtain and use information, marks, or technology that we regard as proprietary, or otherwise violate or infringe our intellectual property rights. In addition, it is possible that others could independently develop substantially equivalent intellectual property. If we do not effectively protect our intellectual property, or if others independently develop substantially equivalent intellectual property, our competitive position could be weakened.

Effectively policing the unauthorized use of our services and technology is time-consuming and costly, and the steps taken by us may not prevent misappropriation of our technology or other proprietary assets. The efforts we have taken to protect our proprietary rights may not be sufficient or effective, and unauthorized parties may obtain and use information, marks, or technology that we regard as proprietary, copy aspects of our services, or use similar marks or domain names. In some cases, the ownership or scope of an entity's or person's rights is unclear and may also change over time, including through changes in U.S. or international intellectual property laws or regulations or through court decisions or decisions by agencies or regulatory boards that manage such rights. Our intellectual property may be subject to even greater risk in foreign jurisdictions, as protection is not sought or obtained in every country in which our services and technology are available and it is often more difficult and costly to obtain, register, or enforce our rights in foreign jurisdictions.

We may have to litigate to enforce our intellectual property rights, to protect our trade secrets, or to determine the validity and scope of others' proprietary rights, which are sometimes not clear or may change. Litigation can be time consuming and expensive, and the outcome can be difficult to predict.

Legislation and regulation may impact our business operations, restrict our opportunities, increase our costs, and create potential liability.

All of our businesses are subject to laws and regulations relating to how they conduct their operations and we anticipate that additional applicable laws and regulations will be enacted in the future. Many of these laws and regulations restrict the operations and opportunities of our businesses and result in compliance costs. In addition, interpretations of these laws and regulations are not always clear, and failure to comply with them in the manner that a government regulator or court interprets could result in liability. For example, all of our businesses have privacy compliance obligations, and any failure by us to comply with our posted privacy policies, Federal Trade Commission ("FTC") requirements, or other privacy-related laws and regulations could result in proceedings by the FTC or others, including potential class action litigation, which could potentially have an adverse effect on our business, results of operations, and financial condition. Additional applicable legal and regulatory requirements for each of our businesses are discussed below under the sections of these Risk Factors that are specific to those businesses. It is not possible to predict whether or when additional applicable legislation or regulation may be adopted and certain proposals, if adopted, could materially and adversely affect our business. Our failure or inability to comply with applicable laws and regulations could materially impact our operations and financial results.

Delaware law and our charter documents may impede or discourage a takeover, which could cause the market price of our shares to decline.

We are a Delaware corporation and the anti-takeover provisions of Delaware law impose various impediments to the ability of a third party to acquire us, even if a change of control would be beneficial to our existing stockholders. For example, Section 203 of the Delaware General Corporation Law may discourage, delay, or prevent a change in control by prohibiting us from engaging in a business combination with an interested stockholder for a period of three years after the person becomes an

- 43 -

---

Table of Contents

interested stockholder. In addition, our certificate of incorporation and bylaws contain provisions that may discourage, delay, or prevent a third party from acquiring us without the consent of our board of directors, even if doing so would be beneficial to our stockholders. Provisions of our charter documents that could have an anti-takeover effect include:

- the classification of our board of directors into three groups so that directors serve staggered three-year terms, which may make it difficult for a potential acquirer to gain control of our board of directors;
- the requirement for super majority approval by stockholders for certain business combinations;
- the ability of our board of directors to authorize the issuance of shares of undesignated preferred stock without a vote by stockholders;
- the ability of our board of directors to amend or repeal our bylaws;
- limitations on the removal of directors;
- limitations on stockholders' ability to call special stockholder meetings;
- advance notice requirements for nominating candidates for election to our board of directors or for proposing matters that can be acted upon by stockholders at stockholder meetings; and
- certain restrictions in our charter on transfers of our common stock designed to preserve our federal net operating loss carryforwards ("NOLs").

At our 2009 annual meeting, our stockholders approved an amendment to our certificate of incorporation that restricts any person or entity from attempting to transfer our stock, without prior permission from the Board of Directors, to the extent that such transfer would (i) create or result in an individual or entity becoming a five-percent stockholder of our stock, or (ii) increase the stock ownership percentage of any existing five-percent stockholder. This amendment provides that any transfer that violates its provisions shall be null and void and would require the purported transferee to, upon our demand, transfer the shares that exceed the five percent limit to an agent designated by us for the purpose of conducting a sale of such excess shares. This provision in our certificate of incorporation may make the acquisition of Blucora more expensive to the acquirer and could significantly delay, discourage, or prevent third parties from acquiring Blucora without the approval of our board of directors.

If there is a change in our ownership within the meaning of Section 382 of the Internal Revenue Code, our ability to use our NOLs may be severely limited or potentially eliminated.

As of December 31, 2013, we had NOLs of \$643.3 million that will expire primarily over a seven to eleven year period. If we were to have a change of ownership within the meaning of Section 382 of the Internal Revenue Code (defined as a cumulative change of 50 percentage points or more in the ownership positions of certain stockholders owning five percent or more of a company's common stock over a three-year rolling period), then under certain conditions, the amount of NOLs we could use in any one year could be limited to an amount equal to our market capitalization, net of substantial non-business assets, at the time of the ownership change multiplied by the federal long-term tax exempt rate. Our certificate of incorporation imposes certain limited transfer restrictions on our common stock that we expect will assist us in preventing a change of ownership and preserving our NOLs, but there can be no assurance that these restrictions will be sufficient. In addition, other restrictions on our ability to use the NOLs may be triggered by a merger or acquisition, depending on the structure of such a transaction. It is our intention to limit the potential impact of these restrictions, but there can be no guarantee that such efforts will be successful. If we are unable to use our NOLs before they expire, or if the use of this tax benefit is severely limited or eliminated, there could be a material reduction in the amount of after-tax income and cash flow from operations, and it could have an effect on our ability to engage in certain transactions.

If we are unable to hire, retain, and motivate highly qualified employees, including our key employees, we may not be able to successfully manage our business.

Our future success depends on our ability to identify, attract, hire, retain, and motivate highly skilled management, technical, sales and marketing, and corporate development personnel. Qualified personnel with experience relevant to our businesses are scarce and competition to recruit them is intense. If we fail to successfully hire and retain a sufficient number of highly qualified employees, we may have difficulties in supporting or expanding our businesses. Realignments of resources,





Table of Contents

reductions in workforce, or other operational decisions have created and could continue to create an unstable work environment and may have a negative effect on our ability to hire, retain, and motivate employees.

Our business and operations are substantially dependent on the performance of our key employees. Changes of management or key employees may cause disruption to our operations, which may materially and adversely affect our business and financial results or delay achievement of our business objectives. In addition, if we lose the services of one or more key employees and are unable to recruit and retain a suitable successor, we may not be able to successfully and timely manage our business or achieve our business objectives. For example, the success of our Search and Content business is partially dependent on key personnel who have long-term relationships with our Search Customers and distribution partners. There can be no assurance that any retention program we initiate will be successful at retaining employees, including key employees.

Like many technology companies, we use stock options, restricted stock units, and other equity-based awards to recruit and retain senior level employees. With respect to those employees to whom we issue such equity-based awards, we face a significant challenge in retaining them if the value of equity-based awards in aggregate or individually is either not deemed by the employee to be substantial enough or deemed so substantial that the employee leaves after their equity-based awards vest. If our stock price does not increase significantly above the exercise prices of our options, we may need to issue new equity-based awards in order to motivate and retain our executives. We may undertake or seek stockholder approval to undertake other equity-based programs to retain our employees, which may be viewed as dilutive to our stockholders or may increase our compensation costs. Additionally, there can be no assurance that any such programs, or any other incentive programs, we undertake will be successful in motivating and retaining our employees.

Restructuring and streamlining our business, including implementing reductions in workforce, discretionary spending, and other expense reductions, may harm our business.

We have in the past and may in the future find it advisable to take measures to streamline operations and reduce expenses, including, without limitation, reducing our workforce or discontinuing products or businesses. Such measures may place significant strains on our management and employees, and could impair our development, marketing, sales, and customer support efforts. We may also incur liabilities from these measures, including liabilities from early termination or assignment of contracts, potential failure to meet obligations due to loss of employees or resources, and resulting litigation. Such effects from restructuring and streamlining could have a negative impact on our business and financial results.

**RISKS RELATED TO OUR SEARCH AND CONTENT BUSINESS**

The current challenges in the search business may continue.

Our Search and Content business has been subject to volatility in the past and is currently experiencing renewed and significant volatility related to a number of factors, many of which are outside of our control. Specifically, the challenges discussed in Part I Item 2 of this report under the heading “Ongoing challenges in the Search and Content business” are causing a slowdown that began late in the first quarter of 2014, continued to impact the second and third quarters of 2014, and is likely to extend into subsequent periods. Although we have addressed, to varying degrees, some of the challenges that initially caused this slowdown, we have been unable to stabilize all of these challenges, and additional issues have emerged, leading to continued and significant pressure on our Search and Content business. In addition, we have been unable to accurately predict the long-term impact of some these challenges in 2014 and may be unable to accurately predict the long-term impact going forward. If we are unable to successfully address our current challenges, or if new issues emerge, we are likely to see a continued material adverse effect on our Search and Content business and its financial results.

We may be unable to compete successfully in the search market.

We face intense competition in the search market. Many of our competitors have substantially greater financial, technical, and marketing resources, larger customer bases, longer operating histories, more developed infrastructures, greater brand recognition, better access to vendors, or more established relationships in the industry than we have. Our competitors may be able to adopt more aggressive pricing policies, develop and expand their product and service offerings more rapidly, adapt to new or emerging technologies and changes in content provider and distribution partner requirements more quickly, achieve greater economies of scale, and devote greater resources to the marketing

and sale of their products and services than we can. Some of the companies that we compete with in the search market are currently Search Customers of ours, the loss of any of which could harm our business. In addition, we may face increasing competition for search market share from new search startups, mobile search providers, and social media sites and applications. If we are unable to match or exceed our competitors' marketing reach and customer service experience, our business may not be successful. Because of these competitive factors and

- 45 -

---

Table of Contents

due to our relatively small size and financial resources, we may be unable to compete successfully in the search market and, to the extent that these competitive factors apply to other markets that we pursue, in such other markets. Most of our search services revenue is attributable to Google, and the loss of, or a payment dispute with, Google or any other significant Search Customer would harm our business and financial results.

If Google, Yahoo!, or any future significant Search Customer were to substantially reduce or eliminate the content it provides to us or to our distribution partners, our business results could materially suffer if we are unable to establish and maintain new Search Customer relationships, or expand our remaining Search Customer relationships, to replace the lost or disputed revenue. Google accounted for approximately 51% of our total Company revenues in the third quarter of 2014. Yahoo! remains an important partner and contributes to our value proposition as a metasearch provider, but Yahoo! is currently a much less significant source of revenue than Google. Although we believe that if our Google relationship ended or was impaired, we could replace a portion of the lost revenue with revenue from Yahoo! or other potential content providers, because of Google's position as the overwhelming market leader in the search industry, these two Search Customers are not interchangeable. In addition, Yahoo! has entered into an agreement with Microsoft's Bing search service, under which Bing provides all of Yahoo!'s algorithmic search results and some of its paid listings. If Yahoo! cannot maintain an agreement with Bing on favorable terms, or if Bing is unable to adequately perform its obligations to Yahoo!, then Yahoo!'s ability to provide us with algorithmic and paid listings may be impaired. In addition, if a Search Customer is unwilling to pay us amounts that it owes us, or if it disputes amounts it owes us or has previously paid to us for any reason (including for the reasons described in the risk factors below), our business and financial results could materially suffer.

The success of our search business depends on our ability to negotiate extensions of our Search Customer agreements on favorable terms. We recently renewed our agreement with Google, which now runs to March 31, 2017. Our agreement with Yahoo! also recently renewed and now runs to December 31, 2015. If we cannot negotiate extensions of our current agreements or new agreements on favorable terms (including revenue share rates, our continued ability to offer combined search results or advertisements from different partners as part of our metasearch service, and other operational aspects of our search services), the financial results of our search business will suffer.

We may be unable to successfully compete in the search market as the market shifts to mobile search.

Our search business, and that of most of our distribution partners, is primarily based on searches conducted from browsers and other applications on desktop and laptop computers. As mobile phones, tablets, and other mobile devices increase in popularity, functionality, and usage, mobile searches will constitute an increasing percentage of the search market. Because our search business has been primarily focused on the desktop and laptop markets, we may have less experience and capability in offering and monetizing mobile search services than our competitors. In addition, because we rely on our Search Customers to provide us with search results and advertisements, our ability to innovate for mobile search and to expand in that market is dependent on the cooperation of, and collaboration with, those Search Customers. Under the terms of our current agreement with Google, which took effect on April 1, 2014, Google was no longer obligated to provide us with AdSense for Search advertisements on our mobile search services, and this change required us to increase usage of our other current advertising solutions for mobile and/or find additional mobile advertising solutions and partners. Although we recently executed an amendment to our agreement with Google that allows a broader implementation of mobile search advertisements, that agreement provides a revenue share rate that is significantly lower than the revenue share rate for desktop advertisements and is thus likely to have a limited impact. If we cannot develop services and partners that allow us to sufficiently innovate for the mobile search market and if our mobile advertising solutions monetize at a significantly lower level than our desktop advertising solutions, our ability to participate in the market shift to mobile search will be impaired, which will likely have a material adverse effect on our search business and its financial results.

Failure by us or our search distribution partners to comply with the policies promulgated by Google and Yahoo! may cause that Search Customer to temporarily or permanently suspend the use of its content or terminate its agreement with us, or may require us to modify or terminate certain distribution relationships.

If we or our search distribution partners fail to meet the policies promulgated by Google or Yahoo! for the use of their content, we may not be able to continue to use their content or provide the content to such distribution partners. Our agreements with Google and Yahoo! give them the ability to suspend the use and the distribution of their content for

non-compliance with their requirements and policies and, in the case of breaches of certain other provisions of their agreements, to terminate their agreements with us immediately, regardless of whether such breaches could be cured. The terms of the Search Customer agreements with Google and Yahoo! and the related requirements and policies are also subject to differing interpretations by the parties, and we have experienced situations, both in the past and in recent periods, in which our interpretation substantially differs from that of our Search Customers. In addition, Google and Yahoo! have broad discretion, at any time, to unilaterally

- 46 -

---

Table of Contents

revise their existing requirements and policies, to implement new requirements and policies, or to change their interpretation or enforcement of existing requirements and policies. Such revisions, implementations, or changes may prohibit or severely restrict certain business methods used by our search business or those of our distribution partners, and the resulting impact could have a material adverse effect on our business and financial results.

Google and Yahoo! have suspended, both in the past and in recent periods, their content provided to our websites and the websites of our distribution partners, often without notice, when they believe that we or our distribution partners are not in compliance with their policies or are in breach of the terms of their agreements. During such suspensions, which could occur again in the future, we will not receive any revenue from any property of ours or a distribution partner that is affected by the suspended content, and the loss of such revenue could harm our business and financial results.

Restrictions on our ability, and the ability of our search distribution partners, to distribute, market, or offer search-related applications, products, and services may impact our financial results.

A significant portion of our Search and Content revenue is dependent on business models that can be negatively impacted by changes in policies, requirements, or technology. For example, many of our search distribution partners distribute applications, extensions, or toolbars that are monetized through the search services that we provide. Our Search Customers require that such applications, extensions, or toolbars, and the distribution of those applications, extensions, or toolbars, comply with certain policies, and recent modifications of these policies have impacted the distribution of applications, extensions, or toolbars that drive traffic and revenue to our search services, and future changes may further restrict such traffic and revenue. In addition, changes to our Search Customers' policies, and their interpretations or application of those policies, have previously negatively affected our ability, and the ability of our search distribution partners, to drive traffic to our search services through the use of online marketing, and similar changes in the future could further restrict or eliminate certain online marketing practices used by our owned and operated sites and those of our distribution partners.

Further, certain third parties have introduced, and can be expected to continue to introduce, new or updated technologies, applications, and policies that may interfere with the ability of users of search services provided directly by us or by our search distribution partners to access those services. For example third parties have introduced technologies and applications (including new and enhanced web browsers) that prevent users from downloading the extensions or toolbars provided by some of our search partners. Those applications may also have features and policies that interfere with the functionality of search boxes embedded within extensions and toolbars and the maintenance of home page and other settings previously selected by users. In addition, our Search Customers can require us to make technology changes to our search services that may negatively impact our search business or the businesses of our distribution partners. For example, a required technology change in the first quarter of 2014 resulted in a significant negative impact on the return on our marketing expenditures. Similar changes may be required again in the future.

Any changes in technologies, applications, and policies that restrict the distribution, marketing, and offering of search-related applications, extensions, toolbars, products, and services could have a material adverse effect on our operating and financial results.

A substantial portion of our search services revenue is dependent on our relationships with a small number of distribution partners, the loss of which could have a material adverse effect on our business and financial results. We rely on our relationships with search distribution partners, including Internet service providers, web portals, and software application providers, for distribution of our search services. Approximately 51% of our total revenues for the third quarter of 2014 came from searches conducted by end users on the web properties of our search distribution partners, and approximately 24% of our total revenues for the same time period came from searches conducted by end users on the web properties of our top five distribution partners. Our agreements with many of our distribution partners come up for renewal in 2014, and some of our distributors have the right to immediately terminate their agreements in the event of certain breaches or events. There can be no assurance that these relationships will continue or will be renewed on terms that are as favorable as current terms. In addition, if these larger partners violate our policies or requirements, or those of our Search Customers, we, or our Search Customers, may suspend or limit their access to our search services. We have lost some of our larger distribution partners in 2014, either due to competition

from other content providers, including our Search Customers, or due to inability of those partners to successfully adapt to changes in the marketplace or in Search Customer policies. If we are unable to maintain relationships with our distribution partners on favorable terms, or if our distribution partners cannot continue to use our search services, our business and financial results could be materially adversely affected.

- 47 -

---

## Table of Contents

A significant percentage of our Search and Content business's revenue is generated by our distribution partner network. Given the nature of our relationships with our distribution partners, we have limited insight into the methods that our partners use to drive search traffic, which may result in unanticipated volatility in our financial results. We operate a distribution partner network of greater than 100 distribution partners, which generates the majority of our Search and Content revenue. We have contractual relationships with each partner in the network, but many of these relationships are not exclusive and may not provide us with the ability to have full insight into the methods that our partners use to drive search traffic or their business models. As a result, partners can vary their traffic serviced by our search services, and we may not be able to foresee or control this variation. Additionally, our ability to grow our revenue depends on both our ability to attract new distribution partners and retain existing distribution partners and on our partners' ability to acquire and retain new users that use our search services. For example, a distribution partner may increase or decrease marketing initiatives in ways that we did not predict, and if that partner's traffic is significantly correlated to marketing, such increase or decrease in marketing may result in a significant increase or decrease in search traffic. Without full insight into a partner's business model and related revenue drivers, our ability to accurately predict the traffic driven, and revenue generated, by that partner is limited, in part, to historical patterns. The historical revenue patterns of partners may not be consistent with actual and forecasted results due to unknown factors that impact the partner's business model and/or any related changes to such model.

If advertisers or our Search Customers perceive that they are not receiving quality traffic through our search services, they may reduce or eliminate their advertising through our services, withhold payment for such traffic, or restrict the traffic provided through our services, each of which could have a negative material impact on our business and financial results.

Most of our revenue from our search business is based on the number of clicks on paid listings that are served on our web properties or those of our distribution partners. Each time a user clicks on a paid search result, the Search Customer that provided the paid search result receives a fee from the advertiser who paid for the click and the Search Customer pays us a portion of that fee. If the click originated from one of our distribution partners' web properties, we share a portion of the fee we receive with such partner. If an advertiser receives what it perceives to be poor quality traffic, meaning that the advertiser's objectives are not met for a sufficient percentage of clicks for which it pays, the advertiser may reduce or eliminate its advertisements through the Search Customer that provided the commercial search result to us. This leads to a loss of revenue for our Search Customers and consequently lower fees paid to us. Also, if a Search Customer perceives that the traffic originating from one of our web properties or the web property of a distribution partner is of poor quality, the Search Customer may discount the amount it charged all advertisers whose paid click advertisements appeared on such website or web property, and accordingly may reduce the amount it pays us. The Search Customer may also suspend or terminate our ability to provide its content through such websites or web properties if such activities are not modified to satisfy the Search Customer's concerns.

Poor quality traffic may be a result of invalid click activity. Such invalid click activity occurs, for example, when a person or automated click generation program clicks on a commercial search result to generate fees for the web property displaying the commercial search result rather than to view the webpage underlying the commercial search result. Some of this invalid click activity is referred to as "click fraud." When such invalid click activity is detected, the Search Customer may not charge the advertiser or may refund the fee paid by the advertiser for such invalid clicks. If the invalid click activity originated from one of our distribution partners' web properties or our owned and operated properties, such non-charge or refund of the fees paid by the advertisers in turn reduces the amount of fees the Search Customer pays us. Initiatives we undertake to improve the quality of the traffic that we send to our Search Customers may not be successful and, even if successful, may result in loss of revenue in a given reporting period.

We may be subject to liability for our use or distribution of information that we gather or receive from third parties and indemnity protections or insurance coverage may be inadequate to cover such liability.

Our search services obtain content and commerce information from third parties and link users, either directly through our own websites or indirectly through the web properties of our distribution partners, to third-party webpages and content in response to search queries and other requests. These services could expose us to legal liability from claims relating to such third-party content and sites, the manner in which these services are distributed and displayed by us or our distribution partners, or how the content provided by our Search Customers was obtained or provided by our



Search Customers. This could subject us to legal liability for such things as defamation, negligence, intellectual property infringement, violation of privacy or publicity rights, and product or service liability, among others. Laws or regulations of certain jurisdictions may also deem some content illegal, which also may expose us to liability. Regardless of the legal merits of any such claims, they could result in costly litigation, be time consuming to defend, and divert management's attention and resources. If there was a determination that we had violated third-party rights or applicable law, we could incur substantial monetary liability, be required to enter into

- 48 -

---

## Table of Contents

costly royalty or licensing arrangements (if available), or be required to change our business practices. We are also subject to laws and regulations, both in the United States and abroad, regarding the collection and use of end user information and search related data. If we do not comply with these laws and regulations, we may be exposed to legal liability.

Although the agreements by which we obtain content contain indemnity provisions, these provisions may not cover a particular claim or type of claim or the party giving the indemnity may not have the financial resources to cover the claim. Our insurance coverage may be inadequate to cover fully the amounts or types of claims that might be made against us. In addition, we may also have an obligation to indemnify and hold harmless certain of our Search Customers or distribution partners from damages they suffer for such violations under our contracts with them.

Implementing measures to reduce our exposure to such claims could require us to expend substantial resources and limit the attractiveness of our services. As a result, these claims could result in material harm to our business. Any liability that we incur as a result of content we receive from third parties could harm our financial results.

Governmental regulation and the application of existing laws may slow business growth, increase our costs of doing business, and create potential liability.

The growth and development of the Internet has led to new laws and regulations, as well as the application of existing laws to the Internet, in both the U.S. and foreign jurisdictions. Application of these laws can be unclear. For example, it is unclear how many existing laws regulating or requiring licenses for certain businesses (such as gambling, online auctions, distribution of pharmaceuticals, alcohol, tobacco, firearms, insurance, securities brokerage, or legal services) apply to search services, online advertising, and our business. The costs of complying or failure to comply with these laws and regulations could limit our ability to operate in our market (including limiting our ability to distribute our services; conduct targeted advertising; collect, use, or transfer user information; or comply with new data security requirements), expose us to compliance costs and substantial liability, and result in costly and time-consuming litigation. It is impossible to predict whether or when any new legislation may be adopted or existing legislation or regulatory requirements will be deemed applicable to us, any of which could materially and adversely affect our business.

The FTC has recommended that search engine providers delineate paid-ranking search results from non-paid results. To the extent that we are required to modify presentation of search results as a result of specific regulations or requirements that may be issued in the future by the FTC or other state or federal agencies or legislative bodies with respect to the nature of such delineation or other aspects of advertising in connection with search services, revenue from the affected search engines could be negatively impacted. Addressing these regulations may require us to develop additional technology or otherwise expend significant time and expense.

Due to the nature of the Internet, it is possible that the governments of states and foreign countries might attempt to regulate Internet transmissions, through data protection laws amongst others, or institute proceedings for violations of their laws. We might unintentionally violate such laws, such laws may be modified, and new laws may be enacted in the future. Any such developments (or developments stemming from enactment or modification of other laws) could increase the costs of regulatory compliance for us or force us to change our business practices.

Some of our Search and Content properties, and those of our distribution partners, depend on search engine traffic to drive revenue, and changes in how search engines display links to those properties can negatively impact traffic to those properties and thus the revenues generated by those properties.

Some of our properties, particularly our HowStuffWorks content properties, generate a significant amount of their traffic from search engine result pages. Some of our distribution partners also have properties that generate traffic through search engine result pages. Search engines, including our Search Customers, regularly update the algorithms that power their search results. These algorithm changes can affect the placement of our web properties, or those of our partners, on search result pages, and those placement changes can have a significant impact on traffic driven through search engines, with a resulting negative impact on revenues. If we, or our partners, cannot maintain sufficiently high placement on search engine result pages, the business may be negatively impacted.

### **RISKS RELATED TO OUR TAX PREPARATION BUSINESS**

The tax preparation market is very competitive, and failure to effectively compete will adversely affect our financial results.

Our TaxACT business operates in a very competitive marketplace. There are many competing software products and online services, including two competitors who have a significant percentage of the software and online service market: Intuit's

- 49 -

---

Table of Contents

TurboTax and H&R Block's products and services. Our TaxACT business must also compete with alternate methods of tax preparation, including "pencil and paper" do-it-yourself return preparation by individual filers and storefront tax preparation services, including both local tax preparers and large chains such as H&R Block, Liberty, and Jackson Hewitt. Finally, our TaxACT business faces the risk that state or federal taxing agencies will offer software or systems to provide direct access for individual filers that will reduce the need for TaxACT's software and services. Our financial results will suffer if we cannot continue to offer software and services that have quality and ease-of-use that are compelling to consumers; market the software and services in a cost effective way; offer ancillary services that are attractive to users; and develop the software and services at a low enough cost to be able to offer them at a competitive price point.

The seasonality of our Tax Preparation business requires a precise development and release schedule and any delays or issues with accuracy or quality may damage our reputation and harm our future financial results.

Our tax preparation software and online service must be ready to launch in final form near the beginning of each calendar year to take advantage of the full tax season. We must update the code for our software and service each year to account for annual changes in tax laws and regulations. Delayed and unpredictable changes to federal and state tax laws and regulations can cause an already tight development cycle to become even more challenging. We must develop our code on a precise schedule that both incorporates all such changes and ensures that the software and service are accurate. If we are unable to meet this precise schedule and we launch our software and service late, we risk losing customers to our competitors. If we cannot develop our software with a high degree of accuracy and quality, we risk errors in the tax returns that are generated. Such errors could result in loss of reputation, lower customer retention, or legal fees and payouts related to the warranty on our software and service.

The hosting, collection, use, and retention of personal customer information and data by our TaxACT business create risk that may harm our business.

Our TaxACT business collects, uses, and retains large amounts of customer personal and financial information, including information regarding income, family members, credit cards, tax returns, bank accounts, social security numbers, and healthcare. Some of this personal customer information is held by third-party vendors that process certain transactions. In addition, as many of our products and services are web-based, the amount of data we store for our users on our servers (including personal information) has been increasing and will continue to increase as we further evolve our businesses. We and our vendors use security technologies to protect transactions and personal information and use security and business controls to limit access and use of personal information. However, individuals or third parties, including rogue employees, contractors, temporary workers, vendors, business partners, or hackers, may be able to circumvent these security and business measures. In addition, our clients may access our online tax preparation services from their computers and mobile devices, install and use our tax preparation software on their computers and mobile devices, and access online banking services from their computers and mobile devices. Because our business model relies on our clients' use of their own personal computers, mobile devices, and the Internet, computer viruses and other attacks on our clients' personal computer systems and mobile devices could create losses for our clients even without any breach in the security of our systems, and could thereby harm our business and our reputation.

If we are unable to develop, manage, and maintain critical third party business relationships for our TaxACT business, it may be adversely affected.

Our TaxACT business is dependent on the strength of our business relationships and our ability to continue to develop, maintain, and leverage new and existing relationships. We rely on various third party partners, including software and service providers, suppliers, vendors, distributors, contractors, financial institutions, licensing partners, among others, in many areas of this business to deliver our services and products. In certain instances, the products or services provided through these third party relationships may be difficult to replace or substitute, depending on the level of integration of the third party's products or services into, or with, our offerings and/or the general availability of such third party's products and services. In addition, there may be few or no alternative third party providers or vendors in the market. The failure of third parties to provide acceptable and high quality products, services, and technologies or to update their products, services, and technologies may result in a disruption to our business operations, which may reduce our revenues and profits, cause us to lose customers, and damage our reputation.

Alternative arrangements and services may not be available to us on commercially reasonable terms or we may experience business interruptions upon a transition to an alternative partner.

In particular, our TaxACT business has relationships with banks, credit unions or other financial institutions, both as customers and as suppliers of certain critical services we offer to our other customers. If any of these institutions fail, consolidate, stop providing certain services, or institute cost-cutting efforts, our results may suffer and we may be unable to offer those services to our customers.

- 50 -

---

## Table of Contents

We may be unable to effectively adapt to changing government regulations relating to tax preparation, which may harm our operating results.

The tax preparation industry is heavily regulated at the state and federal level, and is frequently subject to significant new and revised laws and regulations. The application of these laws and regulations to our businesses is often unclear and compliance with these regulations may involve significant costs or require changes to our business practices. Any changes to our business practices that result from a change to laws or regulations, or from any change in the interpretation of a law or regulation (for example due to a court ruling or an administrative ruling or interpretation), may result in a negative impact on our operating results. We are also required to comply with a variety of IRS and state revenue agency standards in order to successfully operate our tax preparation and electronic filing services. Changes in these requirements, including the required use of specific technologies or technology standards, may significantly increase the costs of providing those services to our customers and may prevent us from delivering a quality product to our customers in a timely manner.

In order to meet regulatory standards, we may be required to increase investment in compliance and auditing functions or new technologies. In addition, government authorities may enact other laws, rules or regulations that place new burdens or restrictions on our business or determine that our operations are directly subject to existing rules or regulations, such as requirements related to data collection, use, transmission, retention, processing and security, which may make our business more costly, less efficient or impossible to conduct, and may require us to modify our current or future products or services, which may harm our future financial results.

Restrictions on our ability to offer certain financial products related to our tax preparation services may harm our financial results.

We offer certain financial products related to our tax preparation software and services, and we generate some of our Tax Preparation segment revenue from such products. These products include prepaid debit cards on which a tax filer may receive his or her tax return and the ability of certain of our users to have the fees for our services deducted from their tax return. Any regulation of these products by state or federal governments, or any competing products offered by state and federal tax collection agencies could impact our revenue from these financial products. In addition, litigation brought by consumers or state or federal agencies relating to these products may result in additional restrictions on the offering of these products. To the extent that any additional restrictions on our tax preparation related financial products restrict our ability to offer such products, our financial results may suffer.

Unanticipated changes in income tax rates, deduction types, or the taxation structure may adversely affect our TaxACT business.

Changes in the way that the state and federal governments structure their taxation regimes may affect our results. The introduction of a simplified or flattened taxation structure may make our services less necessary or attractive to individual filers. We also face risk from the possibility of increased complexity in taxation structures, which may encourage some of our customers to seek professional tax advice instead of using our software or services. In the event that such changes to tax structures cause us to lose market share, our results may suffer.

If our TaxACT business fails to process transactions effectively or fails to adequately protect against disputed or potential fraudulent activities, our revenue and earnings may be harmed.

Our TaxACT business processes a significant volume and dollar value of transactions on a daily basis. Due to the size and volume of transactions that we handle, effective processing systems and controls are essential to ensure that transactions are handled appropriately. Despite our efforts, it is possible that we may make errors or that fraudulent activity may affect our services. In addition to any direct damages and fines that any such problems may create, which may be substantial, a loss of confidence in our controls may seriously harm our business and damage our brand. The systems supporting our business are comprised of multiple technology platforms that are difficult to scale. If we are unable to effectively manage our systems and processes we may be unable to process customer data in an accurate, reliable, and timely manner, which may harm our business.

### **RISKS RELATED TO OUR E-COMMERCE BUSINESS**

The electronics and accessories market is highly competitive, and failure to effectively compete will adversely affect our financial results.



## Table of Contents

The electronics and accessories market in which our Monoprice business sells products is highly competitive. All of Monoprice's products face competition from many sellers of similar products, some of which are much larger and well-known than Monoprice. We attempt to offer products that provide similar quality and technology as those offered by our competitors, but at a lower price, and we attempt to do so with customer service and support that equals or exceeds that of many of our competitors. Many of our competitors have significant competitive advantages over us that may adversely affect our ability to successfully compete on price, quality, technology, service, or support, including larger scale, advanced research facilities, extensive experience in the industry, proprietary intellectual property, greater financial resources, more advanced and extensive supply chain and distribution capacity, better service and support capability, and stronger relationships with suppliers and resellers. If we are unable to successfully compete on price, quality, technology, service, or support, we may not be able to attract and retain customers. We also face competition in attracting the attention of customers in a cost-effective manner. Many of our competitors have better brand recognition, have stronger distribution networks, and spend significantly more than us on marketing efforts. Our financial results depend on our ability to effectively attract customers at a cost that allows us to continue to offer low prices and maintain our margins, and if our efforts are not effective and cost-efficient, our financial results will suffer.

If we fail to accurately forecast customer demand, our inventory may either exceed demand or be insufficient to meet demand, which could harm our financial results.

We rely on our supplier network to manufacture our products, and as a result, we must forecast demand for our products well in advance of the sale of those products when placing orders from our suppliers. If our orders exceed eventual demand, we will have excess inventory, which will increase our inventory carrying costs, may increase risk that those products will become obsolete prior to sale, and may result in write-offs and/or significant price reductions of that inventory. If our orders are insufficient to meet demand, we may not be able to adequately replace that inventory to meet all customer orders in a timely manner, resulting in back-orders, potential lost sales, and negative customer experiences. Significant failure to accurately forecast customer demand may thus impact our short- and long-term financial results.

Our ability to be competitive depends on our ability to introduce new and updated products with sufficient speed to satisfy customers and thus maintain and grow our market share.

The electronics and accessories market is subject to frequent new product introductions, rapid advancements in technology, changes in industry standards, and evolving consumer preferences. Many of our electronics and accessories have short life cycles and/or must be updated frequently. Our future success depends on our ability to develop, introduce, and deliver on a timely basis, and in sufficient quantity, new products and enhancements to current products. The success of any new product or any update to a current product will depend on several factors, including our ability to:

- Accurately predict features that are compelling to customers;
- Acquire or develop technology to incorporate those features in our products;
- Ensure that the design of products is appealing to consumers;
- Arrange for the manufacture and delivery of a sufficient amount of the products on a timely and cost-effective basis; and
- Ensure that the products are of sufficient quality to maintain customer satisfaction.

If we cannot successfully execute on the above factors, our offerings may not match customer demand, with the result that our inventory may become obsolete, we may not be able to maintain or grow sales, our reputation may suffer, and we may be unable to attract and retain customers.

Our ability to maintain and grow market share depends on our ability to offer quality products at price well below the average market price for such products.

We attempt to offer electronics and accessories at a price below our competitors' prices for similar products, while still maintaining similar quality. Our ability to continue to offer quality products at lower prices depends on our ability to adequately source such products at sufficient quality, quantity, and cost and on our ability to keep other operating expenses proportionally low. Because prices for electronics and accessories tend to decline over time, our continued success will depend on our ability to offer some of our products at even lower prices in the future and on our ability to



identify new products or product categories

- 52 -

---

Table of Contents

that we can offer at similar low prices. If we cannot continue to offer current products, and introduce new products, at such quality, quantity, and low cost, we will be unable to maintain or grow our revenues and our financial results will suffer.

We depend on international third-party manufacturers to supply our electronics and accessories and risks related to the manufacture and shipping of our products could adversely affect our operations and financial results.

We outsource most of the manufacturing of our electronics and accessories to suppliers in Asia. We rely on the performance of these suppliers, and any problems with such performance could result in cost overruns, delayed deliveries, shortages, poor quality control, intellectual property issues (both theft of our intellectual property and infringement by our suppliers of the intellectual property of others), and compliance issues. Performance problems by our suppliers could result from many events, including the following: suppliers' willful or unintentional breach of supply agreements; their failure to comply with applicable laws and regulations; labor unrest at their facilities; civil unrest; natural or human disasters at production or shipping facilities; equipment or other facility failures; their inability to acquire sufficient quantities or qualities of components or raw materials at expected prices; infrastructure problems in their countries (e.g., power or transportation infrastructure problems); their bankruptcy, insolvency, or other financial problems; and requests or requirements by their other customers that may conflict with our requirements. In addition, because most of our products are shipped from Asia, we face risks related to such shipping, including performance failures by our shipping partners and those of our suppliers, natural disasters, shipping equipment failure, and export and import regulation compliance issues.

The performance of our manufacturers, suppliers, and shippers is largely outside of our control. As the result of any performance failures, we may lose sales, or we may be required to adjust product designs, change production schedules, or develop suitable alternative contract manufacturers, suppliers, or shippers, which could result in delays in the delivery of products to our customers and/or increased costs. Any such delays, disruptions, or quality problems could adversely impact our ability to sell our products, harm our reputation, impair our customer relationships, and adversely affect our operations and financial results.

Our electronics and accessories could experience quality or safety defects that could result in damage to our reputation, require us to provide replacement products, or cause us to institute product recalls.

We expect that all of our electronics and accessories will meet or exceed all applicable standards for quality and safety. We monitor and attempt to address any quality or safety issues during the design and manufacturing processes, but some problems or defects may not be identified until after introduction and shipment of products to consumers. Resolving such problems or defects may result in increased costs related to production and shipment of replacement parts or products, increased customer support requirements, and redesign and manufacture of products. If we are unable to fix defects in a timely manner or adequately address quality control issues, our relationships with our customers may be impaired, our reputation may suffer, and we may lose customers. If the problems or defects result in a significant safety hazard, we may be forced to institute a product recall, resulting in negative publicity, loss of reputation, administrative costs, distraction of personnel from regular duties, and recall, refund, and replacement expenses. In addition, such product recalls may result in disputes with suppliers and customers or lead to adverse proceedings such as arbitration or litigation, which can be costly and expensive.

Product liability claims or regulatory actions could adversely affect our financial results or harm our reputation.

As the seller of consumer products, we face the possibility that there will be claims for losses or injuries caused by some of our products. In addition to the risk of substantial monetary judgments and penalties that could have a material effect on our financial condition and results of operations, product liability claims or regulatory actions could result in negative publicity that could harm our reputation in the marketplace. We also could be required to recall and possibly discontinue the sale of possible defective or unsafe products, which could result in adverse publicity and significant expenses. Although we maintain product liability insurance coverage, potential product liability claims may exceed the amount of coverage or could be excluded under the terms of the policy.

If our products or operations, or those of our suppliers fail to comply with domestic and international government regulations, or if these regulations result in restrictions on our business, our results could be negatively impacted.

Our products and operations, and the operations of our suppliers and partners, must comply with various domestic and international laws, regulations, and standards, which are complicated and subject to interpretation. Failure by us or our

partners to comply with existing or evolving laws or regulations, including export and import restrictions and barriers, or to obtain domestic or foreign regulatory approvals or certificates on a timely basis could result in restrictions on our operations or in our inability to obtain or sell certain products, with the result that our business may be adversely impacted.

- 53 -

---

Table of Contents

We require that all of our suppliers comply with our design and product content specifications, ethical and human rights requirements, applicable laws (including product safety, security, labor, and environmental laws), and otherwise be certified as meeting our supplier code of conduct. While we do conduct a monitoring program to attempt to ensure compliance by our suppliers, our program cannot ensure 100% compliance. Any failure by our suppliers to comply with our supplier code of conduct, or with any other applicable standard, law, or regulation, could result in our inability or unwillingness to continue working with that supplier, additional monitor costs, and/or negative publicity and damage to our brand and reputation.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

See “Note 8: Stockholders’ Equity” of the Notes to Unaudited Condensed Consolidated Financial Statements in Part I Item 1 of this report for additional information regarding the Company’s stock repurchase program. Share repurchase activity during the third quarter of 2014 was as follows (in thousands, except per share data):

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet be Purchased under the Plans or Programs
July 1 - 31, 2014	—	\$—	—	\$49,282
August 1 - 31, 2014	237	\$15.64	237	\$45,576
September 1 - 30, 2014	27	\$15.89	27	\$45,155
Total	264	\$15.67	264	

## Item 3. Defaults Upon Senior Securities

None.

## Item 4. Mine Safety Disclosures

Not applicable.

## Item 5. Other Information

None.

## Item 6. Exhibits

See exhibits listed under the Index to Exhibits below.

Table of Contents

SIGNATURES

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

BLUCORA, INC.

By /s/ Eric M. Emans  
Eric M. Emans  
Chief Financial Officer  
(Principal Financial Officer)

November 5, 2014

- 55 -

---

Table of Contents

## INDEX TO EXHIBITS

Exhibit Number	Exhibit Description	Form	Date of First Filing	Exhibit Number Filed Herewith
10.1*	Employment Agreement between Blucora, Inc., Monoprice, Inc., and Bernard Luthi, dated July 14, 2014			X
10.2*	Employment Agreement between Blucora, Inc. and Nathan Garnett, dated September 7, 2014			X
10.3*	Employment Agreement between Blucora, Inc. and Mark Finkelstein, dated September 30, 2014			X
10.4*	Employment Agreement between Blucora, Inc., InfoSpace LLC, and Peter Mansour, dated October 6, 2014			X
31.1	Certification of Principal Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002			X
31.2	Certification of Principal Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002			X
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002			X
32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002			X
101	The following financial statements from the Company's 10-Q for the fiscal quarter ended September 30, 2014, formatted in XBRL: (i) Unaudited Condensed Consolidated Balance Sheets, (ii) Unaudited Condensed Consolidated Statements of Operations, (iii) Unaudited Condensed Consolidated Statements of Cash Flows, and (iv) Notes to Unaudited Condensed Consolidated Financial Statements			X

\* Indicates a management contract or compensatory plan or arrangement..