

BLUCORA, INC.  
Form 10-Q  
May 01, 2014  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-Q**

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

**For the quarterly period ended March 31, 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**  
**(State or other jurisdiction of**  
**incorporation or organization)**

**91-1718107**  
**(I.R.S. Employer**  
**Identification No.)**

**10900 NE 8th Street, Ste. 800**

**Bellevue, Washington**  
**(Address of principal executive offices)**

**98004**  
**(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

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

<b>Class</b>	<b>Outstanding at April 25, 2014</b>
Common Stock, Par Value \$0.0001	42,257,675



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(in thousands, except per share data)

	<b>March 31, 2014</b>	<b>December 31, 2013</b>
<b><u>ASSETS</u></b>		
Current assets:		
Cash and cash equivalents	\$ 142,756	\$ 130,225
Available-for-sale investments	193,634	203,480
Accounts receivable, net of allowance of \$57 and \$62	47,026	48,081
Other receivables	4,582	8,292
Inventories	29,513	28,826
Prepaid expenses and other current assets, net	10,364	9,774
Total current assets	427,875	428,678
Property and equipment, net	16,110	16,108
Goodwill	348,957	348,957
Other intangible assets, net	170,595	178,064
Other long-term assets	5,851	6,223
Total assets	\$ 969,388	\$ 978,030
<b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>		
Current liabilities:		
Accounts payable	\$ 56,001	\$ 61,268
Accrued expenses and other current liabilities	28,187	31,109
Deferred revenue	6,641	7,510
Short-term portion of long-term debt, net	7,910	7,903
Convertible senior notes, net		181,583
Total current liabilities	98,739	289,373
Long-term liabilities:		
Long-term debt, net	69,218	113,193
Convertible senior notes, net	182,457	
Deferred tax liability, net	47,366	56,861
Deferred revenue	2,882	1,814
Other long-term liabilities	2,732	2,719
Total long-term liabilities	304,655	174,587

Total liabilities	403,394	463,960
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Common stock, par value, \$0.0001 - authorized, 900,000 shares; issued and outstanding, 42,203 and 42,083 shares	4	4
Additional paid-in capital	1,491,966	1,466,043
Accumulated deficit	(925,990)	(951,977)
Accumulated other comprehensive income	14	
Total stockholders' equity	565,994	514,070
Total liabilities and stockholders' equity	\$ 969,388	\$ 978,030

See accompanying notes to Unaudited Condensed Consolidated Financial Statements.

**Table of Contents****BLUCORA, INC.****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(in thousands, except per share data)**

	<b>Three months ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>Revenues:</b>		
Services revenue	\$ 179,044	\$ 165,338
Product revenue, net	37,139	
<b>Total revenues</b>	<b>216,183</b>	<b>165,338</b>
<b>Operating expenses:</b>		
<b>Cost of revenues:</b>		
Services cost of revenue	71,293	76,987
Product cost of revenue	25,029	
<b>Total cost of revenues</b>	<b>96,322</b>	<b>76,987</b>
Engineering and technology	4,135	2,538
Sales and marketing	55,836	38,484
General and administrative	8,632	6,384
Depreciation	1,058	517
Amortization of intangible assets	5,584	3,169
<b>Total operating expenses</b>	<b>171,567</b>	<b>128,079</b>
Operating income	44,616	37,259
Other loss, net	(4,069)	(1,005)
Income before income taxes	40,547	36,254
Income tax expense	(14,560)	(12,646)
Net income	\$ 25,987	\$ 23,608
<b>Net income per share:</b>		
Basic	\$ 0.62	\$ 0.58
Diluted	\$ 0.58	\$ 0.53
<b>Weighted average shares outstanding:</b>		
Basic	42,162	40,911
Diluted	44,521	44,294
<b>Other comprehensive income:</b>		
Net income	\$ 25,987	\$ 23,608
Unrealized gain on available-for-sale investments, net	14	44

Unrealized gain on derivative instrument, net			40
Other comprehensive income		14	84
Comprehensive income	\$	26,001	\$ 23,692

See accompanying notes to Unaudited Condensed Consolidated Financial Statements.



**Table of Contents****BLUCORA, INC.****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(in thousands)**

	<b>Three months ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>Operating Activities:</b>		
Net income	\$ 25,987	\$ 23,608
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation	3,408	2,485
Depreciation and amortization of intangible assets	8,864	6,112
Excess tax benefits from stock-based award activity	(22,743)	(17,842)
Deferred income taxes	(10,423)	(6,668)
Amortization of premium on investments, net	1,085	435
Amortization of debt issuance costs	281	107
Accretion of debt discounts	906	161
Gain on derivative instrument		(348)
Other	39	55
Cash provided (used) by changes in operating assets and liabilities:		
Accounts receivable	1,017	(6,225)
Other receivables	3,695	(284)
Inventories	(687)	
Prepaid expenses and other current assets	347	3,587
Other long-term assets	75	(114)
Accounts payable	(5,267)	3,122
Deferred revenue	199	1,122
Accrued expenses and other current and long-term liabilities	19,812	22,486
Net cash provided by operating activities	26,595	31,799
<b>Investing Activities:</b>		
Purchases of property and equipment	(1,247)	(1,543)
Change in restricted cash		231
Equity investment in privately-held company		(4,000)
Proceeds from sales of investments	12,272	
Proceeds from maturities of investments	68,923	18,674
Purchases of investments	(72,415)	(62,077)
Net cash provided (used) by investing activities	7,533	(48,715)
<b>Financing Activities:</b>		
Proceeds from issuance of convertible notes, net of debt issuance costs of \$6,037		195,213
Proceeds from credit facilities	4,000	
Repayment of credit facilities	(48,000)	
Excess tax benefits from stock-based award activity	22,743	17,842

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Proceeds from stock option exercises	86	293
Proceeds from issuance of stock through employee stock purchase plan	665	461
Tax payments from shares withheld upon vesting of restricted stock units	(1,091)	(536)
Net cash provided (used) by financing activities	(21,597)	213,273
Net increase in cash and cash equivalents	12,531	196,357
Cash and cash equivalents, beginning of period	130,225	68,278
Cash and cash equivalents, end of period	\$ 142,756	\$ 264,635
Supplemental disclosure of non-cash investing activities:		
Purchases of property and equipment through leasehold incentives	\$ 120	\$ 1,006
Cash paid for:		
Income taxes	\$ 575	\$ 395
Interest	\$ 876	\$ 738

See accompanying notes to Unaudited Condensed Consolidated Financial Statements.

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**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 business, an online tax preparation business, and an e-commerce business. The Search business, InfoSpace, provides search services to distribution partners' web properties as well as to the Company's owned and operated properties. 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.

*Segments:* The Company has three reporting segments: Search, Tax Preparation, and E-Commerce. The Search segment is the InfoSpace business, 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** to represent search 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, purchase 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 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 investment-grade income securities, AAA-rated money market funds, and insured time deposits with commercial banks. 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.

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*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 in a hedging relationship (the interest rate swap see Note 6: Debt ). All derivative instruments were settled in the last half of 2013.

The change in the fair value of the Warrant resulted in a \$0.3 million gain for the three months ended March 31, 2013.

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. Cash equivalents and available-for-sale investments are classified within Level 2 of the fair value hierarchy, because the Company values its cash equivalents and available-for-sale investments 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 19% of Monoprice's inventory purchases during the three months ended March 31, 2014, and 19% of Monoprice's related accounts payable at March 31, 2014.

*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. 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 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**

*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 Other long-term liabilities for indemnifications related to general representations and warranties. The escrow period expires on June 3, 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

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loan under the TaxACT 2013 credit facility. See Note 6: Debt for further discussion of the TaxACT 2013 credit facility. 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.

Preliminary valuations are as follows (in thousands):

	<b>Fair Value</b>
Tangible assets acquired	\$ 49,714
Liabilities assumed	(23,623)
<b>Identifiable net assets acquired</b>	<b>\$ 26,091</b>
Fair value adjustments to intangible assets:	
Customer relationships	\$ 30,900
Trade name	38,000
<b>Fair value of intangible assets acquired</b>	<b>\$ 68,900</b>
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)
<b>Excess of purchase price over net assets acquired, allocated to goodwill</b>	<b>\$ 115,601</b>

The preliminary fair value determinations for assets acquired and liabilities assumed for this acquisition were based upon a preliminary valuation. Certain of our estimates and assumptions are subject to change as we obtain additional information for our estimates in future periods. The primary areas of the acquisition accounting that are not yet finalized relate to income and non-income based taxes, indemnification assets, and residual goodwill.

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.

The Company's estimates of the economic lives of the acquired assets are two years for the business-to-consumer customer relationships, seven years for the business-to-business customer relationships, approximately six 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 months ended March 31, 2013, as though they had been combined as of the beginning of the period 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 period



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presented. The pro forma condensed combined consolidated statement of operations for the three months ended March 31, 2013 combines the historical results of operations of Blucora and the historical results of operations of Monoprice. The following amounts are in thousands:

Revenue	\$ 200,034
Net income	\$ 23,674

**Note 4: Goodwill and Other Intangible Assets**

The following table presents goodwill by reportable segment as of March 31, 2014 and December 31, 2013, the balances of which did not change from period to period (in thousands):

	Search	Tax Preparation	E-Commerce	Total
Goodwill	\$ 44,815	\$ 188,541	\$ 115,601	\$ 348,957

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

	March 31, 2014			December 31, 2013		
	Gross carrying amount	Accumulated amortization	Other intangible assets, net	Gross carrying amount	Accumulated amortization	Other intangible assets, net
Definite-lived intangible assets:						
Installed code base technology	\$ 12,650	\$ (12,610)	\$ 40	\$ 12,650	\$ (12,587)	\$ 63
Core technology	1,085	(1,085)		1,085	(1,085)	
Tax Preparation customer relationships	101,400	(27,463)	73,937	101,400	(24,294)	77,106
Tax Preparation proprietary technology	29,800	(16,141)	13,659	29,800	(14,279)	15,521
E-Commerce B2C customer relationships	14,500	(4,405)	10,095	14,500	(2,592)	11,908
E-Commerce B2B customer relationships	16,400	(1,423)	14,977	16,400	(837)	15,563
Balance Financial customer relationships	200	(33)	167	200	(17)	183
Other	6,705	(6,667)	38	6,705	(6,667)	38
Total definite-lived intangible assets	182,740	(69,827)	112,913	182,740	(62,358)	120,382
Indefinite-lived intangible assets:						
Tax Preparation trade names	19,499		19,499	19,499		19,499
E-Commerce trade names	38,000		38,000	38,000		38,000

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Other	183		183	183		183
Total indefinite-lived intangible assets	57,682		57,682	57,682		57,682
Total	\$ 240,422	\$ (69,827)	\$ 170,595	\$ 240,422	\$ (62,358)	\$ 178,064

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Amortization expense was as follows (in thousands):

	<b>Three months ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>Statement of comprehensive income line item:</b>		
Services cost of revenue	\$ 1,885	\$ 1,940
Amortization of intangible assets	5,584	3,169
<b>Total</b>	<b>\$ 7,469</b>	<b>\$ 5,109</b>

Expected amortization of definite-lived intangible assets held as of March 31, 2014 is presented in the table below (in thousands):

	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>Thereafter</b>	<b>Total</b>
Services cost of revenue	\$ 5,628	\$ 7,450	\$ 621	\$	\$	\$	\$ 13,699
Amortization of intangible assets	16,750	19,742	15,068	15,018	15,018	17,618	99,214
<b>Total</b>	<b>\$ 22,378</b>	<b>\$ 27,192</b>	<b>\$ 15,689</b>	<b>\$ 15,018</b>	<b>\$ 15,018</b>	<b>\$ 17,618</b>	<b>\$ 112,913</b>

The weighted average amortization periods for definite-lived technology intangible assets and customer relationships is 22 months and 66 months, respectively, and for all definite-lived intangible assets combined is 60 months.

**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):

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	Fair value measurements at the reporting date using			
	March 31, 2014	Quoted prices in active markets using identical assets (Level 1)	Significant other assets observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<b>Assets</b>				
Cash equivalents:				
U.S. government securities	\$ 1,300	\$	\$ 1,300	\$
Money market and other funds	47,399		47,399	
Commercial paper	20,499		20,499	
Time deposits	350		350	
Taxable municipal bonds	100		100	
Total cash equivalents	69,648		69,648	
Available-for-sale investments:				
U.S. government securities	46,906		46,906	
Commercial paper	12,197		12,197	
Time deposits	12,309		12,309	
Corporate bonds	1,542		1,542	
Taxable municipal bonds	120,680		120,680	
Total available-for-sale investments	193,634		193,634	
Total assets at fair value	\$ 263,282	\$	\$ 263,282	\$

	Fair value measurements at the reporting date using			
	December 31, 2013	Quoted prices in active markets using identical assets (Level 1)	Significant other assets observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<b>Assets</b>				
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	

<b>Available-for-sale investments:</b>				
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.

All available-for-sale investments had maturity dates of within one year as follows (in thousands):

	<b>Amortized Cost</b>	<b>Gross unrealized gains</b>	<b>Gross unrealized losses</b>	<b>Fair value</b>
As of March 31, 2014	\$ 193,613	\$ 34	\$ (13)	\$ 193,634
As of December 31, 2013	\$ 203,479	\$ 24	\$ (23)	\$ 203,480

**Table of Contents****Note 6: Debt**

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

	March 31, 2014			December 31, 2013		
	Principal amount	Unamortized discount	Net carrying value	Principal amount	Unamortized discount	Net carrying value
Monoprice 2013 credit facility	\$ 48,000	\$ (256)	\$ 47,744	\$ 50,000	\$ (288)	\$ 49,712
TaxACT 2013 credit facility	29,384		29,384	71,384		71,384
Convertible Senior Notes	201,250	(18,793)	182,457	201,250	(19,667)	181,583
Total debt	\$ 278,634	\$ (19,049)	\$ 259,585	\$ 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 \$2.0 million in March 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 March 31, 2014, Monoprice was in compliance with all of the financial and operating covenants. As of March 31, 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 represent a \$100.0 million revolving credit commitment that reduces to \$90.0 million on August 30, 2014, to \$80.0 million on August 30, 2015, and to \$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.

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 \$42.0 million during the three months ended March 31, 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 March 31, 2014, the Company was in compliance with all of the financial and operating covenants. As of March 31, 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.

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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):

Fees paid to creditors in connection with the refinance, 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 \$28,000 in deferred debt issuance costs, which are being amortized over the term of the new credit facility using the effective interest method as an adjustment to interest expense. The Company also determined that 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. Approximately \$0.6 million, which is comprised of \$0.4 million in deferred financing costs and \$0.2 million in unamortized debt discount related to the prior credit agreement, are being amortized as an adjustment to interest expense over the remaining term of the new credit facility using the effective interest method. Similarly, additional creditor-related fees incurred of \$0.1 million related to the modification are 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 initially received net proceeds from the offering of approximately \$195.2 million after adjusting for debt issuance costs, including the underwriting discount. After the payment of additional debt issuance costs in the second quarter of 2013, the Company ultimately received net proceeds of approximately \$194.8 million.

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. Based on this, the Notes were convertible through March 31, 2014, but none were converted as of that date. As of March 31, 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.

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.

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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. As of March 31, 2014, the if-converted value of the Notes, based on the 25-day volume weighted average price methodology dictated by the Indenture, did not exceed the principal amount.

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 months ended March 31, 2014 and 2013 related to the Notes (in thousands):

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2014</b>	<b>2013</b>
Contractual interest expense (Cash)	\$ 2,138	\$ 380
Amortization of debt issuance costs (Non-cash)	224	34

Accretion of debt discount (Non-cash)	874	132
Total interest expense	\$ 3,236	\$ 546
Effective interest rate of the liability component	7.32%	7.09%

The fair value of the principal amount of the Notes as of March 31, 2014 was \$228.3 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 three months ended March 31, 2014, 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. Although the Company cannot predict the outcome of these matters with certainty, the Company's management does not believe that the disposition of these ordinary course matters will have a material adverse effect on the Company's financial position, results of operations, or cash flows.

**Table of Contents****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):

	<b>Three months ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
Services cost of revenues	\$ 159	\$ 219
Engineering and technology	429	253
Sales and marketing	919	477
General and administrative	1,901	1,536
<b>Total</b>	<b>\$ 3,408</b>	<b>\$ 2,485</b>

Excluded and capitalized as part of internal-use software	\$ 31	\$ 11
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Total net shares issued for stock options exercised, RSUs vested, and shares purchased pursuant to the ESPP were as follows (in thousands):

	<b>Three months ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
Stock options exercised	8	36
RSUs vested	76	96
Shares purchased pursuant to ESPP	36	36
<b>Total</b>	<b>120</b>	<b>168</b>

*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 up to \$50.0 million of its common stock in open-market transactions through February 2015. Repurchased shares will be retired and resume the status of authorized but unissued shares of common stock. There was no share repurchase activity during the three months ended March 31, 2014. As of March 31, 2014, the Company may repurchase an additional \$40.0 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 segment is the InfoSpace business, 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 tax expense 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.

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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):

	<b>Three months ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>Revenues:</b>		
Search	\$ 106,765	\$ 100,601
Tax Preparation	72,279	64,737
E-Commerce	37,139	
<b>Total revenues</b>	<b>216,183</b>	<b>165,338</b>
<b>Operating income:</b>		
Search	19,230	18,270
Tax Preparation	37,402	30,784
E-Commerce	3,478	
Corporate-level activity	(15,494)	(11,795)
<b>Total operating income</b>	<b>44,616</b>	<b>37,259</b>
Other loss, net	(4,069)	(1,005)
Income tax expense	(14,560)	(12,646)
<b>Net income</b>	<b>\$ 25,987</b>	<b>\$ 23,608</b>

**Note 10: Net Income Per Share**

Basic net income per share is computed using the weighted average number of common shares outstanding during the period. Diluted net income 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 months ended March 31, 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):

	<b>Three months ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
Weighted average common shares outstanding, basic	42,162	40,911
Dilutive potential common shares	2,359	3,383
<b>Weighted average common shares outstanding, diluted</b>	<b>44,521</b>	<b>44,294</b>
Shares excluded	739	929

Shares excluded primarily related to 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. During the three months ended March 31, 2013, the conversion of the Notes could only be settled in shares of the Company's common stock. As a result, the Company utilized the if-converted method for the Notes in determining dilutive potential common shares for the three months ended March 31, 2013. 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, since the second quarter of 2013 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 occurred in the three months ended March 31, 2014.

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The following table sets forth the computation of diluted net income per share (in thousands, except per share amounts):

	<b>Three months ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>Numerator:</b>		
Net income.	\$ 25,987	\$ 23,608
Add: Interest expense, amortization of debt issuance costs, and accretion of discount on the Notes, net of tax effect		356
Less: Gain on derivative instrument		(348)
<b>Net income diluted</b>	<b>\$ 25,987</b>	<b>\$ 23,616</b>
<b>Denominator:</b>		
Weighted average common shares outstanding, diluted	44,521	44,294
Net income per share diluted	\$ 0.58	\$ 0.53

**Note 11: Subsequent Event**

On April 21, 2014, the Company entered into a definitive agreement to acquire the assets and operations of HowStuffWorks, which will become part of the segment that includes the InfoSpace business, from Discovery Communications LLC for approximately \$45.0 million in cash. The acquisition of HowStuffWorks is strategic to the InfoSpace business and will be funded from cash on hand. The transaction is expected to close in the second quarter of 2014, subject to customary closing conditions.

**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-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 business, an online tax preparation business, and an e-commerce business. The Search business, InfoSpace, provides search services to distribution partners' web properties as well as to our owned and operated properties. 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*

The majority of our revenues are generated by our Search segment. The InfoSpace search business primarily offers search services through the web properties of its distribution partners, which are generally private-labeled and customized to address the unique requirements of each distribution partner. The search business also distributes aggregated search content through its owned and operated websites, such as Dogpile.com and WebCrawler.com. Our search revenue primarily is derived from search content providers who provide paid search links for display as part of our search services. From these content providers, whom we refer to as our Search Customers, we license rights to certain search products and services, including both non-paid and paid

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search links. We receive revenues from our Search Customers when an end user of our web search services clicks on a paid search link that is provided by that Search Customer and displayed on one of our owned and operated web properties or displayed on the web property of one of our search distribution partners. Revenues are recognized in the period in which such paid clicks occur and are based on the amounts earned and remitted to us by our Search Customers for such clicks. Our main Search Customer agreements are with Google and Yahoo!. We derive a significant portion of our revenue from Google, and we expect this concentration to continue in the foreseeable future. For the three months ended March 31, 2014, Search revenue from Google accounted for approximately 84% of our Search segment revenue and 42% of our total revenue.

### *Tax Preparation*

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 6,500 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 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.

### **Comparability**

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

Table of ContentsRESULTS OF OPERATIONS**Summary**

(In thousands, except percentages)	Three months ended March 31,		
	2014	Percentage Change	2013
Services revenue	\$ 179,044	8%	\$ 165,338
Product revenue, net	\$ 37,139	100%	
<b>Total revenues</b>	<b>\$ 216,183</b>	<b>31%</b>	<b>\$ 165,338</b>
Operating income	\$ 44,616	20%	\$ 37,259

Total revenues increased \$50.8 million due to an increase of \$6.2 million in revenue related to our Search business driven by an increase in revenue from owned and operated web properties offset by a decrease in revenue from distribution partners, an increase of \$7.5 million in our Tax Preparation business, and the addition of \$37.1 million in product revenue from the Monoprice business that we acquired in August 2013.

Operating income increased \$7.3 million due to the \$50.8 million increase in revenue, offset by a \$43.5 million increase in operating expenses. Key changes in operating expenses were:

\$5.2 million increase in the Search segment's operating expenses primarily as a result of higher spending on our online marketing, offset by lower revenue share to our distribution partners with the decrease in Search distribution revenue and decreased content costs.

\$0.9 million increase in the Tax Preparation segment's operating expenses primarily due to increased spending on marketing campaigns for the current tax season and higher personnel expenses due to increased headcount.

The inclusion of \$33.7 million in E-Commerce segment operating expenses due to the acquisition of Monoprice in August 2013.

\$3.7 million increase in corporate-level expense activity, primarily as a result of amortization expense associated with the acquisition of Monoprice and higher stock-based compensation related to the issuance of equity awards to Monoprice employees and, to a lesser extent, increased equity award activity to existing employees.

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 in 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 tax expense to segment operating results. We analyzed

these separately.

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

## Search

(In thousands, except percentages)	Three months ended March 31,		
	2014	Percentage Change	2013
Revenue	\$ 106,765	6%	\$ 100,601
Operating income	\$ 19,230	5%	\$ 18,270
Segment margin	18%		18%

*Search revenue:* Our ability to increase search 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 operating income:* Because we share revenue with our distribution partners, the Search 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 also can be impacted by the mix of revenue generated by our distribution partners. In addition, we manage our online marketing by projecting a desired return on our marketing expenditures and attempting to market according to that projected return.

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The following table presents our Search revenue by source and as a percentage of total Search revenue (in thousands, except for percentages):

	<b>Three months ended March 31,</b>			
	<b>2014</b>	<b>Percentage of Revenue</b>	<b>2013</b>	<b>Percentage of Revenue</b>
Revenue from existing distribution partners (launched prior to the then-current year)	\$ 83,636	78%	\$ 87,301	87%
Revenue from new distribution partners (launched during the then-current year)	129		1,171	1%
Revenue from distribution partners	83,765	78%	88,472	88%
Revenue from owned and operated properties	23,000	22%	12,129	12%
<b>Total Search revenue</b>	<b>\$ 106,765</b>		<b>\$ 100,601</b>	

Search revenue increased \$6.2 million due to revenue generated by our owned and operated properties, which increased by \$10.9 million, or 90%, primarily as a result of continued investment in online marketing to drive end users to our owned and operated properties. Revenue from distribution partners decreased \$4.7 million, or 5%, driven by decreases of \$3.7 million and \$1.0 million in revenue from existing partners and new partners (both defined in table above), respectively. We generated 36% and 43% of our search revenue through our top five distribution partners in the three months ended March 31, 2014 and 2013, respectively. The web properties of our top five distribution partners for the three months ended March 31, 2014 generated 33% of our search revenue in the three months ended March 31, 2013.

As we previously disclosed, under our recently renewed agreement, Google is no longer required to provide advertisements from Google's AdSense for Search to our owned and operated or distributed mobile search services. However, we have continued to work with Google in a limited way on mobile AdSense after April 1, 2014 as Google works on this transition. While we have displayed some Google mobile ads in April, the impact of this limited mobile advertising is relatively insignificant. We cannot offer assurances that we will be able to continue to work with Google on mobile agreements going forward, and any agreement that we may be able to reach with Google in the future is expected to be limited to our owned and operated properties and at a revenue share rate that is significantly lower than the revenue share rate for desktop advertisements.

Search operating income increased \$1.0 million due to the increase in revenue, offset by an increase of \$5.2 million in operating expenses. The increase in Search segment operating expenses primarily was due to a \$9.8 million increase in spending on our online marketing, offset by a \$4.9 million, or 7%, decrease in Search services cost of revenue primarily driven by the decrease in distribution revenue and the resulting revenue share to our distribution partners and decreased content costs.

*Current volatility in the Search business:* Our Search business has been subject to volatility in the past and is currently experiencing renewed and significant volatility related to a number of factors. As we discussed on our earnings call held on February 20, 2014, we expected second quarter revenue to be down sequentially and likely represent a low point for the year. This expectation was driven by changes to our mobile advertising offering as a result of our new agreement with Google. However, we now expect the impact to be greater than previously anticipated, and this impact has been exacerbated by other factors, which are discussed below. Together, these issues are causing a slowdown that

began late in the first quarter, are continuing to impact the second quarter, and may extend into subsequent periods.

Our owned and operated search business has slowed significantly due to the unexpected impact of a technology change that has decreased the return on investment of online marketing for our WebCrawler.com owned and operated site. In the first quarter of 2014, we began the process of implementing a change to our search services platforms to incorporate certain technology requirements that were requested by our Search Customers and that reflect an emerging search industry standard. We began this implementation for certain distribution partners in late January 2014 and are continuing to migrate partners and our owned and operated sites. We implemented the change on our WebCrawler.com site, which has a separate code base from our other sites, on February 25, 2014, and the transition brought a significant and unexpected negative impact on paid click conversion and on rates per click. The resulting decrease in revenue led to a decrease in our projected return on investment for our marketing expenditures. Because we manage our online marketing according to a projected return on investment, we significantly reduced online marketing expenditures to levels that allowed us to meet our desired rate of return. We are continuing our analysis and have not yet determined with certainty the causes of the trends in paid click conversion and rates per click, and while we are taking steps to address technological issues and optimize our technology and processes to allow us to profitably ramp our online marketing expenditures to previous levels, we cannot be certain that we will be able to do so.

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We are also experiencing volatility in our distribution network due to a number of factors. These factors have jointly contributed to a decline in revenue from our distribution network, with some or all of the factors impacting partners in various ways and to varying degrees. Because the financial effects of changes in our distribution business are typically most pronounced in the months following the change, as our distribution partners analyze the impact and make adjustments to their businesses, we believe that the impact of the following factors will be felt most significantly in the second quarter, and we hope that the distribution business will begin to recover in subsequent periods. One of the factors causing volatility in the distribution network is the technology change described above, which we also began implementing for our distribution partners earlier in the first quarter of 2014. While the overall impact has been less pronounced in our distribution network than for our WebCrawler.com site, we have seen a negative impact for some partners. Additionally, we are experiencing a negative impact from our announcement in February 2014 of the removal, effective April 1, 2014, of Google mobile search ads from our search service under our new agreement with Google. The impact of this announced change has been more significant than expected due to certain distribution partners migrating their respective mobile and tablet originated traffic to other content provider networks. Finally, as we do in every quarter, we have either suspended or limited access to our services for certain distribution partners due to our policy and compliance requirements, which evolve over time and are partially driven by our Search Customers. Our recent compliance efforts are not unusual for the Search business as we continually monitor and enforce compliance in our networks. However, in conjunction with the other impacts described above and slower than expected growth in new distribution partners, these compliance efforts are contributing to a decrease in revenue expectations.

We are taking steps to address all of the volatility factors described above but can provide no assurance that these steps will be implemented in a timely manner or successfully address these factors. As a result, we are uncertain of the precise impact of this volatility in the second quarter and its continuing impact in the third quarter and beyond. However, we currently anticipate the negative impact on Search revenue for the second quarter of 2014 from the factors described above will be in the range of approximately \$24.0 million to \$32.0 million, with Search segment margin compressing by 200 to 250 basis points, as compared to reported revenue and segment margin for the first quarter of 2014.

**Tax Preparation**

(In thousands, except percentages)	Three months ended March 31,		
	2014	Percentage Change	2013
Revenue	\$ 72,279	12%	\$ 64,737
Operating income	\$ 37,402	22%	\$ 30,784
Segment margin	52%		48%

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. Overall revenue is driven more by growth in e-files than by growth in revenue per user, which historically has grown modestly, because we have not made significant pricing adjustments. E-file metrics for the three months ended March 31 and the tax season, which commenced when the IRS began accepting e-files, were as follows (in thousands, except percentages):

	Three months ended March 31,			Tax seasons ended		
	2014	2013	Percentage change	April 16, 2014	April 16, 2013	Percentage change
TaxACT desktop e-files	174	190	-9%	246	270	-9%
TaxACT online e-files	4,022	3,855	4%	5,067	4,865	4%
TaxACT sub-total e-files	4,196	4,045	4%	5,313	5,135	3%
TaxACT Free File Alliance e-files <sup>(1)</sup>	166	111	49%	210	147	43%
TaxACT total e-files	4,362	4,156	5%	5,523	5,282	5%

(1) Free File Alliance e-files are provided as part of an IRS partnership that provides free electronic tax filing services to taxpayers meeting certain income-based guidelines.

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Tax Preparation revenue increased \$7.5 million primarily due to a 4% increase in consumer e-files and increased sales of bank services in the current year. Revenue derived from professional tax preparers also contributed to the increase, with a 10% increase in preparer e-files coupled with an increase in the number of professional preparer units sold.

Tax Preparation operating income increased \$6.6 million due to the increase in revenue, offset by an increase of \$0.9 million in operating expenses. The increase in Tax Preparation segment operating expenses primarily was due to increased spending on marketing campaigns for the current tax season and an increase in personnel expenses mainly due to higher headcount supporting all functions.

**E-Commerce**

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

	<b>Three months ended</b>	
	<b>March 31,</b>	
<b>(In thousands, except percentages)</b>	<b>2014</b>	
Revenue	\$	37,139
Operating income	\$	3,478
Segment margin		9%

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 current period as compared to the comparable prior period as follows:

	<b>Three months ended</b>	
	<b>March 31, 2014</b>	
Order numbers		-2%

Gross profit for our E-Commerce segment consists of net sales less the cost of sales. Our cost of sales includes the product cost, outbound shipping and handling costs, packaging supplies, and provisions for inventory obsolescence. Shipping charges to receive products from our suppliers are included in our inventory and recognized as cost of revenues upon sale of products to our customers. Our gross profit margin has been consistent historically, and we expect it to continue to remain consistent primarily based on our efficient product cost structure enabled by a direct import supply solution.

The remaining operating expenses primarily consist of personnel expenses (which include salaries, benefits, and other employee-related costs) related to personnel engaged in sales and marketing (including fulfillment which includes purchasing, customer and technical support, receiving, inspection, and warehouse functions), engineering and technology, and general and administrative activities, as well as marketing costs, credit card fees, temporary help, contractors, and facility costs.

**Corporate-Level Activity**

(In thousands)	Three months ended March 31,		
	2014	Change	2013
Operating expenses	\$ 3,222	\$ 24	\$ 3,198
Stock-based compensation	3,408	923	2,485
Depreciation	1,395	392	1,003
Amortization of intangible assets	7,469	2,360	5,109
Total corporate-level activity	\$ 15,494	\$ 3,699	\$ 11,795

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.

Operating expenses included in corporate-level activity were comparable to the prior period.

Stock-based compensation increased primarily due to the issuance of equity awards to Monoprice employees and, to a lesser extent, increased award activity to existing employees.

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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 acquisition.

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

(In thousands, except percentages)	Three months ended March 31,		
	2014	Change	2013
Services cost of revenue	\$ 71,293	\$ (5,694)	\$ 76,987
Product cost of revenue	25,029	25,029	
<b>Total cost of revenues</b>	<b>\$ 96,322</b>	<b>\$ 19,335</b>	<b>\$ 76,987</b>
Percentage of revenues	45%		47%

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 Search 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 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.

Services cost of revenue decreased primarily due to decreased Search services cost of revenue of \$4.9 million driven by the decrease in revenue generated from distribution partners and the resulting revenue share to our distribution partners and decreased content costs.

Product cost of revenue represents costs related to Monoprice.

**Engineering and Technology**

(In thousands, except percentages)	Three months ended March 31,		
	2014	Change	2013
Engineering and technology	\$ 4,135	\$ 1,597	\$ 2,538
Percentage of revenues	2%		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.

Engineering and technology expenses increased, of which \$1.2 million was attributable to Monoprice.

**Sales and Marketing**

(In thousands, except percentages)	Three months ended March 31,		
	2014	Change	2013
Sales and marketing	\$ 55,836	\$ 17,352	\$ 38,484
Percentage of revenues	26%		23%

Sales and marketing expenses consist principally of marketing expenses associated with our TaxACT and Monoprice websites (which include television, radio, online display, 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.

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Sales and marketing expenses increased, of which \$6.2 million was attributable to Monoprice (excluding stock-based compensation). The remaining increase primarily was due to a \$10.2 million increase in marketing expenses in our Search and Tax Preparation businesses and a \$0.6 million increase in personnel expenses. The increase in marketing expenses was driven by increased online marketing by our Search segment and increased marketing campaign activity for the current tax season by our Tax Preparation segment. Personnel expenses increased primarily due to higher stock-based compensation related to the issuance of equity awards to Monoprice employees and increased equity award activity to existing employees.

**General and Administrative**

(In thousands, except percentages)	Three months ended March 31,		
	2014	Change	2013
General and administrative	\$ 8,632	\$ 2,248	\$ 6,384
Percentage of revenues	4%		4%

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.

G&A expenses increased, of which \$1.3 million was attributable to Monoprice (excluding stock-based compensation). The remaining increase primarily was due to a \$0.8 million increase in personnel expenses, consisting of an increase in salaries, benefits, and other employee-related costs attributable to increased headcount in the current year to support operations and higher stock-based compensation related to the issuance of equity awards to Monoprice employees and increased award activity to existing employees.

**Depreciation and Amortization of Intangible Assets**

(In thousands, except percentages)	Three months ended March 31,		
	2014	Change	2013
Depreciation	\$ 1,058	\$ 541	\$ 517
Amortization of intangible assets	5,584	2,415	3,169
Total depreciation and amortization of intangible assets	\$ 6,642	\$ 2,956	\$ 3,686
Percentage of revenues	3%		2%

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

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 acquisition.

**Other Loss, Net**

<b>(In thousands)</b>	<b>Three months ended</b>		
	<b>2014</b>	<b>March 31, Change</b>	<b>2013</b>
Interest income	\$ (108)	\$ (53)	\$ (55)
Interest expense	3,015	1,867	1,148
Amortization of debt issuance costs	281	174	107
Accretion of debt discounts	906	745	161
Gain on derivative instrument		348	(348)
Other	(25)	(17)	(8)
<b>Other loss, net</b>	<b>\$ 4,069</b>	<b>\$ 3,064</b>	<b>\$ 1,005</b>

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

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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 \$0.3 million gain on derivative instrument during the three months ended March 31, 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.

**Income Taxes**

We recorded income tax expense of \$14.6 million and \$12.6 million in the three months ended March 31, 2014 and 2013, respectively. In the three months ended March 31, 2014 and 2013, income tax expense did not differ significantly from taxes at the statutory rates.

**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, gains or losses on derivative instrument, other-than-temporary impairment losses on equity investments, and adjustments to the fair values of 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):

	<b>Three months ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
Net income	\$ 25,987	\$ 23,608
Stock-based compensation	3,408	2,485
Depreciation and amortization of intangible assets	8,864	6,112
Other loss, net	4,069	1,005
Income tax expense	14,560	12,646
Adjusted EBITDA	\$ 56,888	\$ 45,856

The increase in Adjusted EBITDA was due to increases in segment operating income of \$1.0 million and \$6.6 million related to our Search and Tax Preparation segments, respectively, driven by growth in those respective segments as



well as segment operating income of \$3.5 million for our E-Commerce segment which was new in the third quarter of 2013 due to the Monoprice acquisition.

*Non-GAAP net income:* We define non-GAAP net income as net income, determined in accordance with GAAP, 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, gains or losses on derivative instrument, other-than-temporary impairment losses on equity investments, the related cash tax impact of those adjustments, and non-cash income taxes. We exclude the non-cash portion of income tax expense 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

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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):

	<b>Three months ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
Net income	\$ 25,987	\$ 23,608
Stock-based compensation	3,408	2,485
Amortization of acquired intangible assets	7,469	5,109
Accretion of debt discount on Convertible Senior Notes	874	132
Gain on derivative instrument		(348)
Cash tax impact of adjustments to GAAP net income	(54)	(163)
Non-cash income tax expense	12,319	11,174
 Non-GAAP net income	 \$ 50,003	 \$ 41,997
 Per diluted share:		
Net income	\$ 0.58	\$ 0.53
Stock-based compensation	0.07	0.06
Amortization of acquired intangible assets	0.17	0.11
Accretion of debt discount on Convertible Senior Notes	0.02	0.00
Gain on derivative instrument		0.00
Cash tax impact of adjustments to GAAP net income	0.00	0.00
Non-cash income tax expense	0.28	0.25
 Non-GAAP net income per share	 \$ 1.12	 \$ 0.95

The increase in non-GAAP net income was due to increases in segment operating income of \$1.0 million and \$6.6 million related to our Search and Tax Preparation segments, respectively, driven by growth in those respective segments as well as segment operating income of \$3.5 million for our E-Commerce segment which was new in the third quarter of 2013 due to the Monoprice acquisition. Offsetting the increases in segment operating income was a \$1.9 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, partially offset by decreased interest expense on the TaxACT credit facility refinancing in August 2013.

**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 March 31, 2014, we had cash and marketable investments of \$336.4 million, consisting of cash and cash equivalents of \$142.8 million and available-for-sale investments of \$193.6 million. We generally invest our excess cash in high quality marketable investments. These investments include securities issued by U.S. government agencies, money market funds, commercial paper, time deposits, corporate bonds, and municipal bonds. All of our financial instrument investments

held at March 31, 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, Tax Preparation, or E-Commerce, and such acquisitions will result in further transaction-related costs. We currently are focused on the following areas: improving the search services and tax preparation services and products offered to our end users, maintaining our current search distribution partners and tax preparation customers, adding new search distribution partners and tax preparation customers, expanding our tax preparation offerings, increasing the number of

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e-commerce orders through existing and new consumer and business customers, e-commerce marketing investment, e-commerce product category expansion and diversification, e-commerce expansion into new geographic areas, continuing to build our e-commerce brand recognition, and seeking opportunities to use our resources to acquire and integrate new businesses and assets. Within our Search, Tax Preparation, and E-Commerce businesses, engineering, operations, and product management personnel remain paramount to our ability to enhance our current technology, increase our distribution network and customer reach for the Search business, deliver high quality tax preparation services for the Tax Preparation business, and provide superior product value and customer service for the E-Commerce business. As a result, we expect to continue to invest in our workforce and research and development operations.

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 \$100.0 million revolving credit commitment that reduces to \$90.0 million on August 30, 2014, to \$80.0 million on August 30, 2015, and to \$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 March 31, 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 \$42.0 million during the three months ended March 31, 2014. For further detail, see Note 6: Debt of the Notes to the 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 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 March 31, 2014. Monoprice borrowed \$50.0 million under the credit facility, receiving net proceeds of approximately \$49.3 million. Monoprice repaid \$2.0 million in March 2014. For further detail, see Note 6: Debt of the Notes to the 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 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 the 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 up to \$50.0 million of our common stock in open-market transactions through February 2015. There was no share repurchase activity during the three months ended March 31, 2014. As of March 31, 2014, we may repurchase an additional \$40.0 million of our common stock under the repurchase program. See Note 8: Stockholders Equity of the Notes to the Unaudited

Condensed Consolidated Financial Statements in Part I Item 1 of this report for additional information regarding the Company's stock repurchase program.

*Contractual Obligations and Commitments*

There have been no material changes during the three months ended March 31, 2014, 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 the Company's 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.

**Table of Contents***Cash Flows*

Our cash flows were comprised of the following (in thousands):

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2014</b>	<b>2013</b>
Net cash provided by operating activities	\$ 26,595	\$ 31,799
Net cash provided (used) by investing activities	7,533	(48,715)
Net cash provided (used) by financing activities	(21,597)	213,273
 Net increase in cash and cash equivalents	 \$ 12,531	 \$ 196,357

*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 \$26.6 million and \$31.8 million for the three months ended March 31, 2014 and 2013, respectively. The activity in the three months ended March 31, 2014 included \$7.4 million of net income (offset by non-cash adjustments) and a \$19.2 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. In addition, TaxACT's seasonality further provided for working capital contributions in payable and accrual balances, offset by reduced payable and accrual balances related to Monoprice inventory purchases and the Search business' online marketing spending.

The activity in the three months ended March 31, 2013 included \$8.1 million of net income (offset by non-cash adjustments) and a \$23.7 million working capital contribution. The working capital contribution was driven by accrued expenses and the impact of excess tax benefits from stock-based activity. In addition, TaxACT's working capital contribution related to the seasonality effect of the first quarter. To a lesser extent, the amounts from accounts receivable and accounts payable also reflected higher Search 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 provided by investing activities was \$7.5 million for the three months ended March 31, 2014 compared to net cash used by investing activities of \$48.7 million for the three months ended March 31, 2013. The activity in the three months ended March 31, 2014 primarily consisted of net cash inflows on our available-for-sale investments of \$8.8 million offset by \$1.3 million in purchases of property and equipment. The activity in the three months ended March 31, 2013 primarily consisted of net cash outlays on our available-for-sale investments of \$43.4 million, a \$4.0 million investment in a privately-held company, and \$1.5 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 \$21.6 million for the three months ended March 31, 2014 compared to net cash provided by financing activities of \$213.3 million for the three months ended March 31, 2013. The activity for the three months ended March 31, 2014 primarily consisted of combined payments of \$48.0 million on the Monoprice and TaxACT 2013 credit facilities. This cash outflow was offset by \$22.7 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 \$0.8 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 three months ended March 31, 2013 primarily consisted of \$195.2 million in net proceeds from the issuance of the Notes, \$17.8 million in excess tax benefits from stock-based award activity primarily due to utilizing equity net operating loss carryforwards from prior years, and \$0.8 million in combined proceeds from the issuance of common stock related to stock option exercises and the employee stock purchase plan.

### **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 three months ended March 31, 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.

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**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.

**Subsequent Event**

See Note 11: Subsequent Event of the Notes to the Unaudited Condensed Consolidated Financial Statements in Part I Item 1 of this report.

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

There have been no material changes to our market risk during the three months ended March 31, 2014. For additional information, see Part II Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2013.

**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 first 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.



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**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings**

See Note 7: Commitments and Contingencies in the Notes to our Unaudited Condensed Consolidated Financial Statements included 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, 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 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 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

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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 services receive, retain, and transmit certain personal information about our website visitors. Subscribers to some of our search 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, 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, 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

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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, 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;

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.

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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 April 1, 2012 and March 31, 2014, our closing stock price ranged from \$10.98 to \$29.82. On April 25, 2014, the closing price of our common stock was \$18.52. 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 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. If such litigation were to be instituted against us, even if we were to prevail, 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 guidelines 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 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;



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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 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.

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 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.

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**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 \$48.0 million remained outstanding as of March 31, 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 \$29.4 million remained outstanding as of March 31, 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

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 March 31, 2014, Monoprice and TaxACT had \$48.0 million and \$29.4 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

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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 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

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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 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 supermajority 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.



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### **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, 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 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 BUSINESS**

### **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 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

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maintain new Search Customer relationships, or expand our remaining Search Customer relationships, to replace the lost or disputed revenue. Google accounted for approximately 42% of our total Company revenues in the three months ended March 31, 2014. Yahoo! remains an important partner and contributes to our value proposition as a metasearch provider, but Yahoo!'s percentage of our revenue generally has declined over the course of the past several years, and now constitutes a much less significant source of revenue than Google. We continue to believe that if our Google relationship ended or was impaired, we could replace a portion of the lost revenue with revenue from Yahoo!, but because of the increased importance of Google to our Search operations, and its position as the overwhelming market leader in the search industry, these two Search Customers are no longer 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 search results. 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 search results may be impaired. 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, 2014. 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 new agreement with Google, which took effect on April 1, 2014, Google is no longer obligated to provide us with AdSense for Search advertisements on our mobile search services, and this change will require us to increase usage of our other current advertising solutions for mobile and/or find additional mobile advertising solutions and partners. We have continued to work with Google in a limited way on mobile AdSense after April 1, 2014, and while we have displayed some Google mobile ads in April, the impact of this limited reach with Google will be at a revenue share rate that is significantly lower than the revenue share rate for desktop advertisements. 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 guidelines 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 guidelines 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 guidelines 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 guidelines are subject to differing interpretations by the parties. Google and Yahoo! have in the past suspended, and may in the future, suspend their content provided to our websites and the websites of our distribution partners, without notice, when they believe that we or our distribution partners are not in compliance with their guidelines or are in breach of the terms of their agreements. During such suspension 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.

Additionally, as our business evolves, we expect that the guidelines of Google and Yahoo!, as well as the parties interpretations of compliance, breach, and sufficient justification for suspension of use of content will change. Both Yahoo! and Google regularly change their guidelines and requirements, both as part of our renegotiation of our agreements with them and generally as they manage their networks of distribution partners. These changes in the guidelines and any changes in the parties interpretations of those guidelines may result in restrictions on our use of the Google and Yahoo! search services, and may

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require us to restrict or suspend part or all of our owned and operated search services or those of any of our distribution partners. Restrictions on our use of Google and Yahoo! search services could have a material adverse effect on 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 revenue is dependent on business models that can be negatively impacted by changes in policies 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 guidelines. Our Search Customers can and do modify these guidelines from time to time, and recent modifications of these guidelines may impact the distribution of applications, extensions, or toolbars that drive traffic and revenue to our search services. In addition, our Search Customers' guidelines have in the past, and may in the future, 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.

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.

Any changes in technologies, applications, and policies that restrict the distribution, marketing, and offering of search-related applications, extensions, toolbars, products, and services may impact 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 39% of our total revenues for the three months ended March 31, 2014 came from searches conducted by end users on the web properties of our search distribution partners, and approximately 18% 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 those of our Search Customers, we may suspend or limit their access to our search services. If we are unable to maintain relationships with our distribution partners on favorable terms, our business and financial results could be materially adversely affected.

### **A significant percentage of our Search 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 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.

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**If advertisers perceive that they are not receiving quality traffic to their sites through their paid-per-click advertisements, they may reduce or eliminate their advertising through the Internet, 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 search results 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 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



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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.

**The current volatility in the search business may continue.**

Our Search business has been subject to volatility in the past and is currently experiencing renewed and significant volatility related to a number of factors. Specifically, the factors discussed in Part I Item 2 of this report under the heading *Current volatility in the Search business* are causing a slowdown that began late in the first quarter of 2014, are continuing to impact the second quarter of 2014, and may extend into subsequent periods. If we are unable to successfully address these factors, they are likely to continue to have a material adverse effect on our Search business and its financial results.

**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 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

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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.

### **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.

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**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.**

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;

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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 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.



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### **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.

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**

None. See Note 8: Stockholders' Equity of the Notes to Unaudited Condensed Consolidated Financial Statements for additional information regarding the Company's stock repurchase program.

### **Item 3. Defaults Upon Senior Securities**

None.

### **Item 4. Mine Safety Disclosures**

Not applicable.

### **Item 5. Other Information**

None.

### **Item 6. Exhibits**

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See exhibits listed under the Index to Exhibits below.

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**SIGNATURES**

Pursuant to the requirements of the Securities and 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)

Dated: May 1, 2014

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<b>Exhibit Number</b>	<b>Exhibit Description</b>	<b>Form</b>	<b>Date of First Filing</b>	<b>Exhibit Number Filed Herewith</b>
10.1*	Blucora 2014 Executive Bonus Plan	8-K	February 12, 2014	10.1
10.2	Google Services Agreement between InfoSpace LLC and Google, Inc. dated February 19, 2014	8-K/A	March 28, 2014	10.1
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 January 31, 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.  
Confidential treatment has been requested for portions of this exhibit. These portions have been omitted from the exhibit to this Quarterly Report on Form 10-Q and submitted separately to the Securities and Exchange Commission.