BLUCORA, INC.
Form 10-Q
October 29, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2015

or

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

For the transition period from to

Commission File Number: 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, Suite 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. ý Yes o 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). ý Yes o 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 ý	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

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

Class	Outstanding at October 22, 2015
Common Stock, Par Value $0.0001	40,992,081

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
BLUCORA, INC.
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except per share data)

	September 30, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$59,638	$46,444
Available-for-sale investments	232,705	254,854
Accounts receivable, net of allowance of $99 and $67	23,157	30,988
Other receivables	1,230	3,295
Inventories	33,673	29,246
Prepaid expenses and other current assets, net	10,768	13,477
Total current assets	361,171	378,304
Property and equipment, net	15,089	15,942
Goodwill, net	308,827	304,658
Other intangible assets, net	147,253	168,919
Other long-term assets	4,134	4,891
Total assets	$836,474	$872,714
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$33,570	$37,755
Accrued expenses and other current liabilities	18,918	21,505
Deferred revenue	6,563	7,884
Short-term portion of long-term debt, net	—	7,914
Total current liabilities	59,051	75,058
Long-term liabilities:		
Long-term debt, net	30,000	85,835
Convertible senior notes, net	188,050	185,177
Deferred tax liability, net	15,024	42,963
Deferred revenue	2,382	1,915
Other long-term liabilities	6,225	2,741
Total long-term liabilities	241,681	318,631
Total liabilities	300,732	393,689
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Common stock, par $0.0001—authorized shares, 900,000; issued and outstanding shares, 40,951 and 40,882	4	4
Additional paid-in capital	1,506,593	1,467,658
Accumulated deficit	(970,784)	(987,524)
Accumulated other comprehensive loss	(71)	(1,113)
Total stockholders' equity	535,742	479,025
Total liabilities and stockholders' equity	$836,474	$872,714

See accompanying notes to Unaudited Condensed Consolidated Financial Statements.

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BLUCORA, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In thousands, except per share data)

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Revenues:				
Services revenue	$45,975	$76,885	$268,819	$362,199
Product revenue, net	38,806	37,970	109,764	110,408
Total revenues	84,781	114,855	378,583	472,607
Operating expenses:				
Cost of revenues:				
Services cost of revenue	28,492	49,754	94,204	177,280
Product cost of revenue	28,523	25,605	77,878	73,771
Total cost of revenues	57,015	75,359	172,082	251,051
Engineering and technology	5,418	5,970	15,803	14,922
Sales and marketing	16,933	18,152	98,416	96,275
General and administrative	12,513	9,495	33,936	28,552
Depreciation	1,215	1,085	3,540	3,278
Amortization of intangible assets	5,349	6,118	17,585	17,463
Total operating expenses	98,443	116,179	341,362	411,541
Operating income (loss)	(13,662)	(1,324)	37,221	61,066
Other loss, net	(3,275)	(3,208)	(11,578)	(11,001)
Income (loss) before income taxes	(16,937)	(4,532)	25,643	50,065
Income tax benefit (expense)	6,326	2,294	(8,903)	(17,579)
Net income (loss)	$(10,611)	$(2,238)	$16,740	$32,486
Net income (loss) per share:				
Basic	$(0.26)	$(0.05)	$0.41	$0.78
Diluted	$(0.26)	$(0.05)	$0.40	$0.75
Weighted average shares outstanding:				
Basic	40,950	41,034	40,952	41,589
Diluted	40,950	41,034	41,911	43,303
Other comprehensive income (loss):				
Net income (loss)	$(10,611)	$(2,238)	$16,740	$32,486
Unrealized gain (loss) on available-for-sale investments, net of tax	111	(1,917)	(149)	173
Foreign currency translation adjustment	(122)	—	(122)	—
Reclassification adjustment for realized (gain) loss on available-for-sale investments, net of tax, included in net income as Other loss, net	(68)	(4)	349	(4)
Reclassification adjustment for other-than-temporary impairment loss on available-for-sale investments, included in net income as Other loss, net	—	—	964	—
Other comprehensive income (loss)	(79)	(1,921)	1,042	169
Comprehensive income (loss)	$(10,690)	$(4,159)	$17,782	$32,655

See accompanying notes to Unaudited Condensed Consolidated Financial Statements.

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BLUCORA, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Nine months ended September 30,	
	2015	2014
Operating Activities:		
Net income	$16,740	$32,486
Adjustments to reconcile net income to net cash from operating activities:		
Stock-based compensation	9,357	8,974
Depreciation and amortization of intangible assets	27,706	27,298
Excess tax benefits from stock-based award activity	(35,612)	(29,801)
Deferred income taxes	(30,904)	(15,621)
Amortization of premium on investments, net	1,250	3,095
Amortization of debt issuance costs	943	853
Accretion of debt discounts	3,064	2,753
Realized (gain) loss on available-for-sale investments, net	312	(6)
Other-than-temporary impairment loss on equity securities	964	—
Other	161	78
Cash provided (used) by changes in operating assets and liabilities:		
Accounts receivable	7,740	16,212
Other receivables	2,065	4,134
Inventories	(4,427)	1,067
Prepaid expenses and other current assets	4,150	849
Other long-term assets	(219)	43
Accounts payable	(4,185)	(18,382)
Deferred revenue	(854)	(48)
Accrued expenses and other current and long-term liabilities	32,689	17,174
Net cash provided by operating activities	30,940	51,158
Investing Activities:		
Business acquisition, net of cash acquired	(1,740)	(44,927)
Purchases of property and equipment	(3,115)	(4,247)
Purchases of intangible assets	(696)	—
Proceeds from sales of investments	19,246	26,620
Proceeds from maturities of investments	210,699	195,296
Purchases of investments	(209,112)	(237,063)
Net cash provided (used) by investing activities	15,282	(64,321)
Financing Activities:		
Proceeds from credit facilities	20,000	4,000
Repayment of credit facilities	(83,940)	(62,000)
Stock repurchases	(7,068)	(29,923)
Excess tax benefits from stock-based award activity	35,612	29,801
Proceeds from stock option exercises	2,374	2,447
Proceeds from issuance of stock through employee stock purchase plan	1,193	1,376
Tax payments from shares withheld upon vesting of restricted stock units	(1,193)	(2,569)
Net cash used by financing activities	(33,022)	(56,868)
Effect of exchange rate changes on cash and cash equivalents	(6)	—
Net increase (decrease) in cash and cash equivalents	13,194	(70,031)
Cash and cash equivalents, beginning of period	46,444	130,225

Cash and cash equivalents, end of period	$59,638	$60,194
Supplemental disclosure of non-cash investing activities:		
Purchases of property and equipment through leasehold incentives	$515	$120
Cash paid for:		
Income taxes	$1,499	$2,536
Interest	$5,536	$6,336

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 and Content business, an online Tax Preparation business, and an E-Commerce business. The Search and Content business operates through our InfoSpace LLC subsidiary (“InfoSpace”) and provides search services to users of its owned and operated and distribution partners' web properties, as well as online content. The Tax Preparation business consists of the operations of TaxACT, Inc. (“TaxACT”) and provides online tax preparation service for individuals and small businesses, tax preparation software for individuals, small businesses, and professional tax preparers, and ancillary services through its website, www.taxact.com. The E-Commerce business consists of the operations of Monoprice, Inc. (“Monoprice”) and sells self-branded electronics and accessories to both consumers and businesses primarily through its website, www.monoprice.com.
On July 2, 2015, TaxACT acquired all of the equity of SimpleTax Software Inc. (“SimpleTax”), a provider of online tax preparation services for individuals in Canada through its website www.simpletax.ca.
On May 30, 2014, InfoSpace acquired the assets of HowStuffWorks (“HSW”), which constituted a business, pursuant to the terms of the Asset Purchase Agreement dated April 18, 2014. HSW provides online content through various websites, including www.HowStuffWorks.com. HSW generates revenue primarily through advertisements appearing on its websites.
Segments: The Company has three reportable segments: Search and Content, Tax Preparation, and E-Commerce. The Search and Content 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 and Content” to represent search and content services provided through the InfoSpace business, 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.
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, expenses, and disclosure of contingent assets and liabilities. Estimates include those used for impairment of goodwill and other intangible assets, useful lives of other intangible assets, acquisition accounting, valuation of investments, revenue recognition, the estimated allowance for sales returns and doubtful accounts, the estimated allowance for obsolete, slow moving, and nonsalable inventory, internally developed software, contingent liabilities, stock option valuation, and valuation allowance for deferred tax assets. Actual amounts may differ from estimates.
Seasonality: Blucora’s Tax Preparation segment is highly seasonal, with the significant majority of its annual revenue earned in the first four months of the Company’s fiscal year. During the third and fourth quarters, the Tax Preparation segment typically reports losses because revenue from the segment is minimal while core operating expenses continue at relatively consistent levels. Revenue from the E-Commerce segment also is seasonal, with revenues historically being the lowest in the second quarter, a period that does not include consumer back-to-school or holiday-related spending.
Note 2: Summary of Significant Accounting Policies
Interim financial information: The accompanying consolidated financial statements have been prepared by the Company under the rules and regulations of the Securities and Exchange Commission (the “SEC”) for interim financial reporting. These consolidated financial statements are unaudited and, in management’s opinion, include all adjustments, consisting of normal recurring adjustments and accruals, necessary for a fair presentation of the consolidated financial position, results of operations, and cash flows for the periods presented. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been omitted in accordance with the rules and regulations of the SEC. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes in Part II Item 8 of the

Company's Annual Report on Form 10-K for the year ended December 31, 2014. Interim results are not necessarily indicative of results for a full year.

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

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insured time deposits with commercial banks. Equity securities include common stock in a publicly-traded company. Such investments are included in “Cash and cash equivalents” and “Available-for-sale investments” on the consolidated balance sheets and reported at fair value with unrealized gains and losses included in “Accumulated other comprehensive loss” 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 its available-for-sale investments for impairment 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. An impairment classified as temporary is recognized in “Accumulated other comprehensive loss” on the consolidated balance sheets. An impairment classified as other-than-temporary is recognized in “Other loss, net” on the consolidated statements of comprehensive income.

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. The acquisition-date fair value of total consideration includes cash and contingent consideration. Since the Company is contractually obligated to pay contingent consideration upon the achievement of specified objectives, a contingent consideration liability is recorded at the acquisition date. The Company reviews its assumptions related to the fair value of the contingent consideration liability each reporting period and, if there are material changes, revalues the contingent consideration liability based on the revised assumptions, until such contingency is satisfied through payment upon the achievement of the specified objectives. The change in the fair value of the contingent consideration liability is recognized in “General and administrative” expense on the consolidated statements of comprehensive income for the period in which the fair value changes.

Goodwill is calculated as the excess of the acquisition-date fair value of total consideration over the acquisition-date fair value of net assets, including the amount assigned to identifiable intangible assets, and is assigned to reporting units that are expected to benefit from the synergies of the business combination as of the acquisition date. Reporting units are consistent with reportable segments. Identifiable intangible assets with finite lives are amortized over their useful lives on a straight-line basis. 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.

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Marketable equity securities are classified within Level 1 of the fair value hierarchy because the Company values its marketable equity securities using quoted prices in active markets for identical securities. Cash equivalents and debt securities are classified within Level 2 of the fair value hierarchy because the Company values its cash equivalents and debt securities utilizing market observable inputs. The contingent consideration liability is related to the Company's acquisition of SimpleTax and is classified within Level 3 of the fair value hierarchy because the Company values the liability utilizing significant inputs not observable in the market. Specifically, the Company has determined the fair value of the contingent consideration liability based on a probability-weighted discounted cash flow analysis, which includes assumptions related to estimating revenues, the probability of payment, and the discount rate. The Company accounts for contingent consideration in accordance with applicable accounting guidance pertaining to business combinations, as disclosed in the accounting policy “Business combinations and intangible assets including goodwill.”

Foreign currency: The financial position and operating results of the Company's foreign operations are consolidated using the local currency as the functional currency. Assets and liabilities recorded in local currencies are translated at the exchange rate on the balance sheet date, while revenues and expenses are translated at the average exchange rate for the applicable period. Translation adjustments resulting from this process are recorded in “Accumulated other comprehensive

loss" on the consolidated balance sheets. The gain or loss on foreign currency transactions, calculated as the difference between the historical exchange rate and the exchange rate at the applicable measurement date, are recorded in "Other loss, net" on the consolidated statements of comprehensive income.
Supplier concentration risk: During the nine months ended September 30, 2015 and 2014, Monoprice inventory purchases from two key unrelated vendors accounted for 15% and 18% of Monoprice's total inventory purchases, respectively.
Recent accounting pronouncements: Changes to GAAP are established by the Financial Accounting Standards Board ("FASB") in the form of accounting standards updates ("ASUs") to the FASB's Accounting Standards Codification ("ASC"). The Company considers the applicability and impact of all recent ASUs. ASUs not listed below were assessed and determined to be either not applicable or are expected to have minimal impact on the Company's consolidated financial position and results of operations.
In May 2014, the FASB issued guidance codified in ASC 606, "Revenue from Contracts with Customers," which amends the guidance in former ASC 605 "Revenue Recognition." The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This will be achieved in a five-step process. Enhanced disclosures also will be required. This guidance is effective on a retrospective basis--either to each reporting period presented or with the cumulative effect of initially applying this guidance recognized at the date of initial application--for annual reporting periods, including interim reporting periods within those annual reporting periods, beginning after December 15, 2017. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company currently is evaluating the impact of this guidance on its consolidated financial statements.
In April 2015, the FASB issued two separate ASUs, both of which are effective for annual reporting periods beginning after December 15, 2015, including interim reporting periods within that reporting period. Earlier adoption is permitted for both ASUs. One of these ASUs provides guidance about whether a cloud computing arrangement includes a software license, in which case the software license element should be accounted for consistent with the acquisition of other software licenses; otherwise, the arrangement should be accounted for as a service contract. This guidance may be applied either prospectively or retrospectively. The other ASU provides guidance related to the balance sheet presentation of debt issuance costs, in which those debt issuance costs should be presented as a direct deduction from the carrying amount of the recognized debt, unless the debt issuance costs relate to line-of-credit arrangements, in which case asset presentation of such debt issuance costs would still be permitted. This guidance must be applied retrospectively. The adoption of these ASUs are not expected to have a material impact on the Company's consolidated financial statements.
Note 3: Business Combinations
SimpleTax: On July 2, 2015, TaxACT acquired all of the equity of SimpleTax, a provider of online tax preparation services for individuals in Canada, for C$2.4 million (with C$ indicating Canadian dollars and amounting to approximately $1.9 million based on the acquisition-date exchange rate) in cash and additional consideration of up to C$4.6 million ($3.7 million) that is contingent upon product availability and revenue performance over a three-year period. The estimated fair value of the contingent consideration as of the acquisition date was C$4.1 million ($3.3 million). See "Note 5: Fair Value Measurements" for additional information related to the fair value measurement of the contingent consideration.
The acquisition of SimpleTax is strategic to TaxACT and intended to expand its operations. SimpleTax is included in the Tax Preparation segment. Intangible assets acquired amounted to approximately C$1.2 million ($0.9 million), consisting of customer relationships and proprietary technology both of which have finite lives. Identifiable net liabilities assumed were not material. Goodwill amounted to C$5.6 million ($4.5 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.
HSW: On May 30, 2014, InfoSpace acquired HSW, a provider of online content, for $44.9 million in cash, which was funded from available cash. The acquisition of HSW is strategic to InfoSpace and intended to expand its operations. HSW is included in the Search and Content segment. The identifiable net assets acquired amounted to approximately

$4.5 million, consisting primarily of marketable equity securities, and intangible assets acquired amounted to approximately $25.4 million, consisting of $18.2 million in content, $1.3 million in proprietary technology, and $5.9 million in trade names. The Company estimates the economic lives of the content and proprietary technology to be 10 years and 4 years, respectively, and the trade names are estimated to have indefinite lives. Goodwill amounted to $15.1 million and is expected to be deductible for income tax purposes. Goodwill consists largely of the ability to attract new customers through utilization of current content and to

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develop new content post-acquisition, neither of which qualify for separate recognition. Pro forma results of operations have not been presented because the effects of this acquisition were not material to the Company's consolidated results of operations.

Note 4: Goodwill and Other Intangible Assets

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

	Search and Content	Tax Preparation	E-Commerce	Total
Goodwill as of December 31, 2014	$59,912	$188,541	$56,205	$304,658
Addition	—	4,473	—	4,473
Foreign currency translation adjustment	—	(304)	—	(304)
Goodwill as of September 30, 2015	$59,912	$192,710	$56,205	$308,827

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

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

	September 30, 2015			December 31, 2014		
	Gross carrying amount	Accumulated amortization	Net	Gross carrying amount	Accumulated amortization	Net
Definite-lived intangible assets:						
Customer relationships	$132,791	$ (66,056)	$66,735	$132,500	$ (50,075)	$82,425
Technology	45,372	(41,522)	3,850	44,805	(35,649)	9,156
Content	18,200	(2,427)	15,773	18,200	(1,061)	17,139
Other	6,667	(6,667)	—	6,667	(6,667)	—
Total definite-lived intangible assets	203,030	(116,672)	86,358	202,172	(93,452)	108,720
Indefinite-lived intangible assets:						
Trade names	60,199	—	60,199	60,199	—	60,199
Internet domain names	696	—	696	—	—	—
Total indefinite-lived intangible assets	60,895	—	60,895	60,199	—	60,199
Total	$263,925	$ (116,672)	$147,253	$262,371	$ (93,452)	$168,919

The additions to customer relationships and technology were related to the acquisition of SimpleTax as described in "Note 3: Business Combinations."

Amortization expense was as follows (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Statement of comprehensive income line item:				
Services cost of revenue	$1,911	$1,875	$5,636	$5,641
Amortization of intangible assets	5,349	6,118	17,585	17,463
Total	$7,260	$7,993	$23,221	$23,104

Expected amortization of definite-lived intangible assets held as of September 30, 2015 is presented in the table below (in thousands):

	2015	2016	2017	2018	2019	Thereafter	Total
Services cost of revenue	$1,910	$810	$189	$94	$—	$—	$3,003
Amortization of intangible assets	4,316	17,247	17,197	17,012	16,879	10,704	83,355
Total	$6,226	$18,057	$17,386	$17,106	$16,879	$10,704	$86,358

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The weighted average amortization periods for definite-lived intangible assets are as follows: 53 months for customer relationships, 14 months for technology, 104 months for content, and 61 months for total definite-lived intangible assets.

Note 5: Fair Value Measurements

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

		Fair value measurements at the reporting date using		
	September 30, 2015	Quoted prices in active markets using identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash equivalents:				
U.S. government securities	$3,000	$—	$3,000	$—
Money market and other funds	4,285	—	4,285	—
Commercial paper	18,398	—	18,398	—
Time deposits	249	—	249	—
Total cash equivalents	25,932	—	25,932	—
Available-for-sale investments:				
Debt securities:				
U.S. government securities	97,098	—	97,098	—
Commercial paper	13,694	—	13,694	—
Time deposits	19,734	—	19,734	—
Taxable municipal bonds	101,857	—	101,857	—
Total debt securities	232,383	—	232,383	—
Equity securities	322	322	—	—
Total available-for-sale investments	232,705	322	232,383	—
Total assets at fair value	$258,637	$322	$258,315	$—
Contingent consideration liability	$3,052	$—	$—	$3,052
Total liabilities at fair value	$3,052	$—	$—	$3,052

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	December 31, 2014	Fair value measurements at the reporting date using Quoted prices in active markets using identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash equivalents:				
Money market and other funds	$8,490	$—	$8,490	$—
Time deposits	1,242	—	1,242	—
Taxable municipal bonds	4,754	—	4,754	—
Total cash equivalents	14,486	—	14,486	—
Available-for-sale investments:				
Debt securities:				
U.S. government securities	100,818	—	100,818	—
International government securities	6,560	—	6,560	—
Commercial paper	24,589	—	24,589	—
Time deposits	30,759	—	30,759	—
Corporate bonds	1,528	—	1,528	—
Taxable municipal bonds	87,366	—	87,366	—
Total debt securities	251,620	—	251,620	—
Equity securities	3,234	3,234	—	—
Total available-for-sale investments	254,854	3,234	251,620	—
Total assets at fair value	$269,340	$3,234	$266,106	$—

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

A reconciliation of changes in Level 3 items measured at fair value on a recurring basis was as follows (in thousands):

	September 30, 2015
Contingent consideration liability:	
Beginning balance	$—
Initial estimate upon acquisition	3,274
Foreign currency translation adjustment	(222)
Ending balance	$3,052

The contingent consideration liability is related to the Company's acquisition of SimpleTax (see “Note 3: Business Combinations”), and the related payments are expected to occur annually beginning in 2017 and continuing through 2019. As of September 30, 2015, the Company could be required to pay up to an undiscounted amount of $3.4 million. The Company has determined the fair value of the contingent consideration liability based on a probability-weighted discounted cash flow analysis, which includes assumptions related to estimating revenues, the probability of payment (100%), and the discount rate (9%). A decrease in estimated revenues would decrease the fair value of the contingent consideration liability, while a decrease in the discount rate would increase the fair value of the contingent consideration liability. As of September 30, 2015, the Company recorded the entire contingent consideration liability in “Other long-term liabilities” on the consolidated balance sheets.

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

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Balance at September 30, 2015				
Debt securities	$232,330	$67	$(14)	$232,383
Equity securities	296	26	—	322
Total	$232,626	$93	$(14)	$232,705
Balance at December 31, 2014				
Debt securities	$251,673	$16	$(69)	$251,620
Equity securities	4,312	—	(1,078)	3,234
Total	$255,985	$16	$(1,147)	$254,854

The contractual maturities of the debt securities classified as available-for-sale at September 30, 2015 and December 31, 2014 were less than one year.

The Company's equity securities consist of a single holding in a publicly-traded company. During the nine months ended September 30, 2015, the Company recorded a $1.0 million other-than-temporary impairment loss on its equity securities due to the length of time and extent to which the fair value had been less than cost. The impairment loss was recognized in “Other loss, net” on the consolidated statements of comprehensive income. During the three months ended December 31, 2014, the Company's equity securities were in an unrealized loss position for the first time, and, at that time, the Company had considered such position to be temporary.

Note 6: Debt

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

	September 30, 2015			December 31, 2014		
	Principal amount	Unamortized discount	Net carrying value	Principal amount	Unamortized discount	Net carrying value
Monoprice 2013 credit facility	$30,000	$—	$30,000	$42,000	$(191)	$41,809
TaxACT 2013 credit facility	—	—	—	51,940	—	51,940
Convertible Senior Notes	201,250	(13,200)	188,050	201,250	(16,073)	185,177
Total debt	$231,250	$(13,200)	$218,050	$295,190	$(16,264)	$278,926

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, until repaid in full in 2015 as discussed below, also consisted of a $40.0 million term loan. 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 initially borrowed $50.0 million under the credit facility, from both the revolving credit loan and the term loan. Monoprice had net repayment activity of $12.0 million and $6.0 million during the nine months ended September 30, 2015 and 2014, respectively. 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). In accordance with this provision, Monoprice repaid the outstanding amount under the term loan in full in 2015, which was included in the net repayment activity for 2015 and resulted in the write-down of the remaining unamortized discount and debt issuance costs related to the term loan. Amounts remained outstanding under the revolving credit loan, which continues to be available to Monoprice through its final maturity date. The interest rate on amounts borrowed under the credit facility is variable, based upon, at the election of Monoprice, either LIBOR plus a margin of between 2.75% and 3.25%, payable as of the end of each interest period, or a variable rate plus a margin of between 1.75% and 2.25%, payable quarterly in arrears. In each case, the applicable margin within the range depends upon Monoprice’s ratio of leverage to EBITDA over the previous four quarters. The credit facility includes financial and operating covenants with respect to certain ratios, including leverage ratio and fixed charge coverage ratio, which are defined further in the agreement. As of September 30, 2015, Monoprice was in compliance with all of the financial and operating covenants. As of September 30, 2015, 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. The 2013 credit facility consists of revolving credit loans, up to $10.0 million in swingline loans, and up to $5.0 million under a letter of credit, which in the aggregate represented a $100.0 million revolving credit commitment that reduced to $80.0 million on August 30, 2015 and will reduce 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 initially borrowed approximately $71.4 million under the 2013 credit facility. TaxACT had net repayment activity of $51.9 million and $52.0 million during the nine months ended September 30, 2015 and 2014, respectively. 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. In accordance with this provision, TaxACT repaid the outstanding amount under the credit facility in full in 2015, which was included in the net repayment activity for 2015. The credit facility continues to be available to TaxACT through its final maturity date. The interest rate on amounts borrowed under the credit facility is variable, based upon, at the election of TaxACT, either LIBOR plus a margin of between 1.75% and 2.5%, or a Base Rate plus a margin of between 0.75% and 1.5%, and payable as of the end of each interest period. In each case, the applicable margin within the range depends upon TaxACT's ratio of leverage to EBITDA over the previous four quarters. The credit facility includes financial and operating covenants with respect to certain ratios, including leverage ratio and fixed charge coverage ratio, which are defined further in the agreement. As of September 30, 2015, the Company was in compliance with all of the financial and operating covenants.

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

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

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

- During any fiscal quarter commencing July 1, 2013, if the last reported sale price of the Company's common stock for at least 20 trading days during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day. As of September 30, 2015, 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.

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

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

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

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

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

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

The following table sets forth total interest expense related to the Notes (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Contractual interest expense (Cash)	$2,138	$2,138	$6,415	$6,415
Amortization of debt issuance costs (Non-cash)	249	232	735	684
Accretion of debt discount (Non-cash)	975	907	2,873	2,671
Total interest expense	$3,362	$3,277	$10,023	$9,770
Effective interest rate of the liability component	7.32 %	7.32 %	7.32 %	7.32 %

The fair value of the principal amount of the Notes as of September 30, 2015 was $192.3 million, based on the last quoted active trading price, a Level 1 fair value measurement, as of that date.

Note 7: Commitments and Contingencies

Except for the additions related to the contingent consideration liability for the SimpleTax acquisition as disclosed in "Note 3: Business Combinations" and the operating lease for the E-Commerce Kentucky warehouse, as well as the debt

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repayments as disclosed in “Note 6: Debt,” there have been no material changes during the period covered by this Quarterly Report on Form 10-Q, outside of the ordinary course of the Company’s business, to the contractual obligations and commitments specified in “Note 8: Commitments and Contingencies” in Part II Item 8 of the Company’s Annual Report on Form 10-K for the year ended December 31, 2014.

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

On March 5, 2015, Remigius Shatas filed a shareholder derivative action against Andrew Snyder, a director of the Company, certain companies affiliated with Mr. Snyder, as well as nominal defendant Blucora, in the Superior Court of the State of Washington in and for King County. Although the Company is a nominal defendant, the plaintiff purports to bring the action on behalf of the Company and thus does not seek monetary damages from the Company. Instead, the plaintiff alleges improper use of inside information in certain sales of the Company's common stock and seeks to recover from Andrew Snyder and those companies affiliated with Mr. Snyder profits resulting from those allegedly improper sales. On May 15, 2015, the court granted the Company's motion to dismiss the Complaint based on the plaintiffs’ failure to file this matter in the proper court. Subsequently, the plaintiff moved for reconsideration of the Superior Court's decision to grant the motion to dismiss, and on June 5, 2015, that motion for reconsideration was denied. On June 30, 2015, the plaintiff filed a Notice of Appeal with the Superior Court, indicating plaintiff's intention to appeal to the Washington Court of Appeals, Division I. On September 14, 2015, the plaintiff filed a motion with the Washington Court of Appeals to add an additional plaintiff, which the court subsequently denied on October 19, 2015. Plaintiff filed its appellant brief on September 25, 2015, and the Company filed its response on October 26, 2015, as well as a Motion on the Merits to Affirm on the grounds that the plaintiff lacked standing at all points relevant to the lawsuit. The Company has entered into indemnification agreements in the ordinary course of business with its officers and directors and may be obligated to advance payment of legal fees and costs incurred by the defendants pursuant to the Company’s obligations under these indemnification agreements and applicable Delaware law.

Note 8: Stockholders’ Equity

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

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Cost of revenues	$48	$101	$155	$373
Engineering and technology	509	568	1,315	1,312
Sales and marketing	457	74	1,405	1,715
General and administrative	2,296	1,865	6,482	5,574
Total	$3,310	$2,608	$9,357	$8,974
Excluded and capitalized as part of internal-use software	$7	$26	$68	$80

In May 2012, the Company granted 190,000 stock options to certain employees who perform acquisition-related services. The vesting of such options were predicated on completing “qualified acquisitions” under the terms of the options. The completion of the HSW acquisition on May 30, 2014 constituted a qualified acquisition under such terms, resulting in a charge of $0.3 million to stock-based compensation expense (reflected in “General and administrative” expense) in the nine months ended September 30, 2014.

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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):

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Stock options exercised	25	74	245	214
RSUs vested	40	79	209	284
Shares purchased pursuant to ESPP	51	49	103	85
Total	116	202	557	583

Stock repurchase program: In February 2013, the Company's Board of Directors approved a stock repurchase program whereby the Company may purchase its common stock in open-market transactions. In May 2014, the Board of Directors increased the repurchase authorization, such that the Company may repurchase up to $85.0 million of its common stock, and extended the repurchase period through May 2016. Repurchased shares will be retired and resume the status of authorized but unissued shares of common stock. During the nine months ended September 30, 2015, the Company purchased 0.5 million shares in open-market transactions at a total cost of approximately $7.0 million and an average price of $14.46 per share, exclusive of purchase and administrative costs. During the nine months ended September 30, 2014, the Company purchased 1.7 million shares in open-market transactions at a total cost of approximately $29.9 million and an average price of $17.68 per share, exclusive of purchase and administrative costs. As of September 30, 2015, the Company may repurchase an additional $29.4 million, which takes into consideration share repurchases during 2013 and 2014 of $48.6 million, of its common stock under the repurchase program.

Note 9: Segment Information

The Company has three reportable segments. The Search and Content 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 taxes to the reportable segments. The Company does not account for, and does not report to management, its assets or capital expenditures by segment other than goodwill and intangible assets used for impairment analysis purposes.

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

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Revenues:				
Search and Content	$43,100	$74,416	$153,976	$260,999
Tax Preparation	2,875	2,469	114,843	101,200
E-Commerce	38,806	37,970	109,764	110,408
Total revenues	84,781	114,855	378,583	472,607
Operating income (loss):				
Search and Content	4,533	12,709	19,745	45,971
Tax Preparation	(2,542)	(1,859)	61,493	52,754
E-Commerce	2,188	3,336	7,374	9,192
Corporate-level activity	(17,841)	(15,510)	(51,391)	(46,851)
Total operating income (loss)	(13,662)	(1,324)	37,221	61,066
Other loss, net	(3,275)	(3,208)	(11,578)	(11,001)

Income tax benefit (expense)	6,326	2,294	(8,903)	(17,579)
Net income (loss)	$(10,611)	$(2,238)	$16,740	$32,486

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The E-Commerce segment sells a variety of products; however, due to product category evolution, a consistent taxonomy is not available, thus disclosure of revenues by major product category is currently impracticable.

Note 10: Net Income (Loss) Per Share

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

Weighted average shares were as follows (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Weighted average common shares outstanding, basic	40,950	41,034	40,952	41,589
Dilutive potential common shares	—	—	959	1,714
Weighted average common shares outstanding, diluted	40,950	41,034	41,911	43,303
Shares excluded	6,195	5,302	2,950	940

Shares excluded primarily related to shares excluded due to the antidilutive effect of a net loss (for the three months ended September 30, 2015 and 2014), 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 (for 2014).

As more fully discussed in “Note 6: Debt,” in March 2013, the Company issued the Notes, which are convertible and mature in April 2019. In May 2013, the Company received shareholder approval for “flexible settlement,” which provided the Company with the option to settle conversions in cash, shares of common stock, or any combination thereof. The Company intends, upon conversion or maturity of the Notes, to settle the principal in cash and satisfy any conversion premium by issuing shares of its common stock. As a result, the Company only includes the impact of the premium feature in its dilutive potential common shares when the average stock price during the quarter exceeds the conversion price of the Notes, which did not occur during the three months ended September 30, 2015 and 2014.

Note 11: Subsequent Events

Acquisition: On October 14, 2015, the Company entered into a Stock Purchase Agreement (the “Purchase Agreement”) to acquire 100% of the outstanding capital stock of HDV Holdings, Inc., which is the holding company for the group of companies that comprise the HD Vest Financial Services® business (“HD Vest”). HD Vest provides wealth management and advisory solutions specifically for tax professionals and is expected to be synergistic with TaxACT as a result of cross-selling opportunities and an expanded addressable market for both HD Vest and TaxACT. In connection with the acquisition, certain members of HD Vest management will roll over a portion of the proceeds they would have otherwise received at the closing into shares of the acquisition subsidiary through which the Company intends to consummate the purchase of HD Vest. A portion of those shares will be sold to the Company in exchange for a promissory note. After giving effect to the purchase of the rollover shares for the promissory note, it is expected that the Company will indirectly own approximately 97% of HDV Holdings, Inc., with the remaining 3% non-controlling ownership interest held collectively by the rollover management members and subject to put and call arrangements exercisable beginning in 2019.

The total consideration payable is $580.0 million in cash, subject to certain adjustments for working capital, cash retained by HD Vest, and the non-controlling ownership interest retained by certain HD Vest management members. Of the total consideration payable, the $5.8 million promissory note will be paid over a three-year period, with 50% paid in year one, 40% paid in year two, and 10% paid in year three. The Company also agreed to pay additional consideration of up to $20.0 million that is contingent upon HD Vest achieving certain Adjusted EBITDA targets for 2015. The purchase price is expected to be funded by a combination of cash on hand and committed credit facilities.

In connection with the Purchase Agreement, the Company entered into a debt financing commitment letter with a financial institution, under which the financial institution has committed to arrange and provide a $400.0 million first lien term loan facility and a $25.0 million revolving credit facility. Interest will be payable quarterly.

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The acquisition, which is expected to close in late 2015 or early 2016, is subject to certain closing conditions, including regulatory conditions, retention of a certain number of financial advisors and a certain level of assets under administration or management, retention of the HD Vest Chief Executive Officer or certain other management members, the absence of any material adverse effect, and other customary closing conditions. Either party may terminate the Purchase Agreement upon an uncured breach, in certain circumstances, or if the acquisition has not closed by March 7, 2016. In addition, the seller may terminate the Purchase Agreement if the Company fails to close within three business days following the Company's receipt of notice from the seller of the satisfaction or waiver of all closing conditions, in which case the Company would be required to pay the seller a termination fee of $40.0 million (if the seller terminates the Purchase Agreement in 2015) or $50.0 million (if the seller terminates the Purchase Agreement in 2016).

Through the nine months ended September 30, 2015, the Company incurred transaction costs of $1.3 million. The Company expects to incur up to an additional $9.6 million in transaction costs and $13.4 million in debt issuance costs on the closing date.

Business divestitures and chief executive officer departure: On October 14, 2015, the Company announced plans to explore the divestitures of the Search and Content and E-Commerce segments and the departure of its chief executive officer once a permanent successor has been identified. The Company expects that these divestitures will be substantially completed by June 30, 2016. The Company expects to incur separation costs of approximately $1.6 million pursuant to the chief executive officer's existing employment agreement and employee-related business exit costs of approximately $3.3 million, with the majority of these combined costs to be recorded in the fourth quarter of 2015 and the first quarter of 2016.

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 generally are identified by the words "believe," "project," "expect," "anticipate," "estimate," "intend," "plan," "may," "should," "will," "would," and similar expressions. 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, and prospects 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 internet businesses: an internet Search and Content business, an online Tax Preparation business, and an E-Commerce business. The Search and Content business, InfoSpace, provides search services to users of our owned and operated and distribution partners' web properties, as well as online content. The Tax Preparation business consists of the operations of TaxACT and provides online tax preparation service for individuals and small businesses, tax preparation software for individuals and professional tax preparers, and ancillary services. The E-Commerce business consists of the operations of Monoprice and sells self-branded electronics and accessories to both consumers and businesses.

Strategic Transformation

On October 14, 2015, we announced our plans for a strategic transformation of the Company to focus on the financial services and technology market. This transformation consists of plans to acquire the HD Vest Financial Services®

business (“HD Vest”) and to divest of our Search and Content and E-Commerce segments. The transformation will result in fewer support requirements and, therefore, reduced corporate operating expenses. We also expect to shift our capital allocation priorities to pay down debt upon divesting our Search and Content and E-Commerce segments and to eventually return capital

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to shareholders in the form of share repurchases and/or dividends, with a goal to begin returning that capital by early 2017. The elements of our strategic transformation are described in more detail below.

Acquisition: On October 14, 2015, we entered into an agreement to acquire 100% of the outstanding capital stock of the holding company for HD Vest. HD Vest provides wealth management and advisory solutions specifically for tax professionals and is expected to be synergistic with TaxACT as a result of cross-selling opportunities and an expanded addressable market for both HD Vest and TaxACT. In connection with the acquisition, certain members of HD Vest management will roll over a portion of the proceeds they would have otherwise received at the closing into shares of the acquisition subsidiary through which we intend to consummate the purchase of HD Vest. A portion of those shares will be sold to us in exchange for a promissory note. After giving effect to the purchase of the rollover shares for the promissory note, we expect to indirectly own approximately 97% of the holding company for HD Vest, with the remaining 3% non-controlling ownership interest held collectively by the rollover management members and subject to put and call arrangements exercisable beginning in 2019.

We will pay $580.0 million in cash, subject to certain adjustments for working capital, cash retained by HD Vest, and the non-controlling ownership interest retained by certain HD Vest management members, of which $5.8 million will be paid pursuant to the promissory note over a three-year period, with 50% paid in year one, 40% paid in year two, and 10% paid in year three. We also agreed to pay additional consideration of up to $20.0 million that is contingent upon HD Vest achieving certain Adjusted EBITDA targets for 2015. The purchase price is expected to be funded by a combination of cash on hand and committed credit facilities.

In connection with the acquisition, we entered into a debt financing commitment letter with a financial institution, under which the financial institution has committed to arrange and provide a $400.0 million first lien term loan facility and a $25.0 million revolving credit facility. Interest will be payable quarterly.

The acquisition, which is expected to close in late 2015 or early 2016, is subject to certain closing conditions. If we fail to close within three business days following our receipt of notice from the seller of the satisfaction or waiver of all closing conditions, the seller may terminate the agreement, and we would be required to pay the seller a termination fee of $40.0 million (if the seller terminates the agreement in 2015) or $50.0 million (if the seller terminates the agreement in 2016).

Through the nine months ended September 30, 2015, we incurred transaction costs of $1.3 million. We expect to incur up to an additional $9.6 million in transaction costs and $13.4 million in debt issuance costs on the closing date.

For a discussion of the risks associated with this pending acquisition, see the section in our Risk Factors (Part II Item 1A of this quarterly report) under the heading “Risks Related to our Pending Transaction with HD Vest.”

Business divestitures and chief executive officer departure: On October 14, 2015, we announced plans to explore the divestitures of the Search and Content and E-Commerce segments and the departure of our chief executive officer once a permanent successor has been identified. We expect that these divestitures will be substantially completed by June 30, 2016. We expect to incur separation costs of approximately $1.6 million pursuant to the chief executive officer's existing employment agreement and employee-related business exit costs of approximately $3.3 million, with the majority of these combined costs to be recorded in the fourth quarter of 2015 and the first quarter of 2016.

For a discussion of the risks associated with this pending acquisition, see the section in our Risk Factors (Part II Item 1A of this quarterly report) under the heading “Risks Related to our Proposed Divestitures of our Search and Content and E-Commerce Businesses.”

Our Businesses

Search and Content

Our Search and Content segment, InfoSpace, provides search services to users of our owned and operated and distribution partners' web properties, as well as online content. These search services generally involve the generation and display of a set of hyperlinks to websites deemed relevant to search queries entered by users, predominantly from desktop and laptop computers. In addition to these algorithmic search results, paid listings generally are displayed in response to search queries. Search services provided through our owned and operated web properties include services through websites such as Dogpile.com, WebCrawler.com, and HowStuffWorks.com. Search services provided to our distribution partners include services to a network of approximately 100 distribution partners through the web properties of those distribution partners, which are generally private-labeled and customized to address the unique requirements of each distribution partner.

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The Search and Content segment's revenue primarily consists of advertising revenue generated through end-users clicking on paid listings included in the search results display, as well as from advertisements appearing on our HowStuffWorks.com website. The paid listings, as well as algorithmic search results, primarily are supplied by Google, Yahoo!, and Bing, whom we refer to as “Search Customers.” When a user submits a search query through one of our owned and operated or distribution partner sites and clicks on a paid listing displayed in response to the query, the Search Customer bills the advertiser that purchased the paid listing directly and shares a portion of its related paid listing fee with us. If the paid listing click occurred on one of our distribution partners' web properties, we pay a significant share of our revenue to the distribution partner. Revenue is recognized in the period in which such clicks on paid listings occur and is based on the amounts earned by and ultimately remitted to us by our Search Customers. We derive a significant portion of our revenue from Google, and we expect this concentration to continue while we own this business. For the three and nine months ended September 30, 2015, Search and Content revenue from Google accounted for approximately 67% and 70%, respectively, of our Search and Content segment revenue and 34% and 29%, respectively, of our total Company revenue. For further discussion of this concentration risk, see the paragraph in our Risk Factors (Part II Item 1A of this quarterly report) under the heading “Most of our search services revenue is attributable to Google, and the loss or termination of our relationship, or a payment dispute with, Google or any other significant Search Customer would materially harm our business and financial results.”

Tax Preparation

Our TaxACT business consists of an online tax preparation service for individuals and small businesses, tax preparation software for individuals, small businesses, and professional tax preparers, and ancillary services. TaxACT generates revenue primarily through its online service at 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 professional tax preparer 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 website, where the majority of our E-Commerce revenue is derived, and fulfills those orders from our warehouses in Rancho Cucamonga, California and Hebron, Kentucky, the latter of which commenced operations in September 2015. We also sell our products through reseller and marketplace agreements. Monoprice has built a well-respected brand by delivering products with 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. 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.

Acquisitions

On July 2, 2015, TaxACT acquired all of the equity of SimpleTax for C$2.4 million (with C$ indicating Canadian dollars and amounting to approximately $1.9 million based on the acquisition-date exchange rate) in cash and additional consideration of up to C$4.6 million ($3.7 million) that is contingent upon product availability and revenue performance over a three-year period. SimpleTax is included in the Tax Preparation segment and our financial results beginning on July 2, 2015, the acquisition date.

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

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.

RESULTS OF OPERATIONS

Summary

(In thousands, except percentages)	Three months ended September 30,			Nine months ended September 30,		
	2015	2014	Percentage Change	2015	2014	Percentage Change
Services revenue	$45,975	$76,885	(40)%	$268,819	$362,199	(26)%
Product revenue, net	38,806	37,970	2%	109,764	110,408	(1)%
Total revenues	$84,781	$114,855	(26)%	$378,583	$472,607	(20)%
Operating income (loss)	$(13,662)	$(1,324)	932%	$37,221	$61,066	(39)%

Three months ended September 30, 2015 compared with three months ended September 30, 2014

Total revenues decreased approximately $30.1 million due to a decrease of $31.3 million in revenue related to our Search and Content business, offset by increases of $0.8 million in product revenue from our E-Commerce business and $0.4 million in revenue related to our Tax Preparation business.

Operating loss increased approximately $12.3 million, consisting of the $30.1 million decrease in revenue and offset by a $17.7 million decrease in operating expenses. Key changes in operating expenses were:

- $23.1 million decrease in the Search and Content segment’s operating expenses, primarily due to lower revenue share owed to our distribution partners resulting from the decrease in distribution revenue and decreased content costs, as well as lower spending on online marketing.
- $1.1 million increase in the Tax Preparation segment’s operating expenses, primarily due to higher personnel expenses resulting from increased headcount.
- $2.0 million increase in the E-Commerce segment's operating expenses, primarily due to higher E-Commerce product cost of revenue, resulting from the increase in product revenue and a shift in the mix of sales of certain products, offset by lower advertising and marketing expenses.
- $2.3 million increase in corporate-level expense activity, primarily due to higher professional services fees mainly from acquisition-related activity, higher personnel expenses resulting from increased headcount to support operations, and higher stock-based compensation mainly related to a net increase in stock award grants, offset by lower amortization expense associated with concluding the useful life of certain Monoprice acquisition-related intangible assets during 2015.

Segment results are discussed in the next section.

Nine months ended September 30, 2015 compared with nine months ended September 30, 2014

Total revenues decreased approximately $94.0 million due to decreases of $107.0 million in revenue related to our Search and Content business and $0.6 million in product revenue from our E-Commerce business, offset by an increase of $13.6 million in revenue related to our Tax Preparation business.

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Operating income decreased approximately $23.8 million, consisting of the $94.0 million decrease in revenue and offset by a $70.2 million decrease in operating expenses. Key changes in operating expenses were:

- $80.8 million decrease in the Search and Content segment’s operating expenses, primarily due to lower revenue share owed to our distribution partners resulting from the decrease in distribution revenue and decreased content costs, offset by higher personnel expenses primarily resulting from the timing of the HSW acquisition.
- $4.9 million increase in the Tax Preparation segment’s operating expenses, primarily due to higher personnel expenses resulting from increased headcount and increased spending on marketing campaigns for the current tax season.
- $1.2 million increase in the E-Commerce segment's operating expenses, primarily due to higher E-Commerce product cost of revenue resulting from a shift in the mix of sales of certain products, offset by lower advertising and marketing expenses and lower personnel expenses, primarily resulting from a charge in the second quarter of 2014 related to the resignation of the former President of Monoprice.
- $4.5 million increase in corporate-level expense activity, primarily due to higher professional services fees mainly from acquisition-related activity, higher personnel expenses resulting from increased headcount to support operations, and higher stock-based compensation due to a net increase in stock award grants, offset by stock-based compensation on the stock options that vested upon the completion of the HSW acquisition in the second quarter of 2014.

Segment results are discussed in the next section.

SEGMENT REVENUE/OPERATING INCOME

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

Search and Content

(In thousands, except percentages)	Three months ended September 30,			Nine months ended September 30,		
	2015	2014	Percentage Change	2015	2014	Percentage Change
Revenue	$43,100	$74,416	(42)%	$153,976	$260,999	(41)%
Operating income	$4,533	$12,709	(64)%	$19,745	$45,971	(57)%
Segment margin	11%	17%		13%	18%	

Our ability to increase Search and Content revenue is dependent on our ability to attract and retain distribution partners and users of our owned and operated web properties, which relies on providing search services that align with our Search Customers' preferences. In addition, revenue growth will be dependent upon investments that grow the audience for our owned and operated sites, including HowStuffWorks.com, by leveraging owned and licensed content to create unique and engaging user experiences.

Because we share revenue with our distribution partners, the Search and Content segment’s cost of revenue will increase or decrease if search services revenue generated through our distribution partners’ web properties increases or decreases, respectively. The cost of revenue 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 and Content revenue by source and as a percentage of total Search and Content revenue:

(In thousands, except percentages)	Three months ended September 30,						Nine months ended September 30,					
	2015	Percentage of Revenue		2014	Percentage of Revenue		2015	Percentage of Revenue		2014	Percentage of Revenue	
Revenue from existing distribution partners (launched prior to the then-current year)	$30,909	72	%	$55,830	75	%	$103,725	67	%	$204,823	78	%
Revenue from new distribution partners (launched during the then-current year)	1,108	2	%	3,204	4	%	1,629	1	%	4,495	2	%
Revenue from distribution partners	32,017	74	%	59,034	79	%	105,354	68	%	209,318	80	%
Revenue from owned and operated web properties	11,083	26	%	15,382	21	%	48,622	32	%	51,681	20	%
Total Search and Content revenue	$43,100			$74,416			$153,976			$260,999		

Three months ended September 30, 2015 compared with three months ended September 30, 2014

Search and Content revenue decreased approximately $31.3 million, or 42%. Revenue from distribution partners decreased $27.0 million, or 46%, driven by decreases of $24.9 million in revenue from existing partners and $2.1 million in revenue from new partners (both defined in the table above). We generated 37% of our Search and Content revenue through our top five distribution partners in the three months ended September 30, 2015 and 2014. The web properties of our top five distribution partners for the three months ended September 30, 2015 generated 19% of our Search and Content revenue in the three months ended September 30, 2014.

The decrease in distribution revenue was driven by previously disclosed factors that impacted the sequential quarterly revenue declines in 2014 and included the loss of certain distribution partner traffic due to increased competition, difficulty in adding new distribution partners, changes in interpretation and enforcement of our Search Customers' policies and requirements, and our own compliance efforts. See further discussion of such factors in our Annual Report on Form 10-K for the year ended December 31, 2014.

Revenue generated by our owned and operated web properties (which includes HSW) decreased $4.3 million, or 28%, primarily due to lower returns on online marketing and a decrease in revenue from our legacy owned and operated web properties. The lower returns on online marketing were attributable to previously disclosed factors that have continued to cause us to experience volatility in our online marketing rate of return. See further discussion of such factors in our Annual Report on Form 10-K for the year ended December 31, 2014. Since December 31, 2014 and as previously disclosed in our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2015 and June 30, 2015, our Search Customers made additional changes in online marketing requirements, which have decreased our return on online marketing. As we have adapted to these changes, we have decreased our online marketing, contributing to the year over year and sequential decreases in the related revenue. We cannot provide assurance that such revenue will return to previous levels. To the extent we experience continued volatility, we could be challenged going forward in our ability to increase marketing expenditures while maintaining our desired rate of return.

Search and Content operating income decreased approximately $8.2 million, consisting of the $31.3 million decrease in revenue and offset by a decrease of $23.1 million in operating expenses. The decrease in Search and Content segment operating expenses primarily was due to a $21.4 million, or 47%, decrease in Search and Content services cost of revenue, which was mainly driven by the decrease in revenue share owed to our distribution partners resulting from the decrease in distribution revenue, and decreased content costs. A $1.6 million decrease in spending on online marketing also contributed to the overall decrease. Personnel expenses were flat, with increased employee separation costs offset by lower headcount across various departments. Segment margin decreased primarily due to the lower return on our online marketing.

As disclosed in the “Strategic Transformation” section in Part I Item 2 of this quarterly report, we announced our plans to explore the divestiture of the Search and Content segment. Refer to that section for additional details.

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Nine months ended September 30, 2015 compared with nine months ended September 30, 2014
Search and Content revenue decreased approximately $107.0 million, or 41%. Revenue from distribution partners decreased $104.0 million, or 50%, driven by decreases of $101.1 million in revenue from existing partners and $2.9 million in revenue from new partners (both defined in the table above). The decrease in distribution revenue was affected by the same factors described above that impacted the quarterly period and also included the removal of advertisements for our mobile search services as a result of our April 2014 agreement with Google and a technology change. See further discussion of such factors in our Annual Report on Form 10-K for the year ended December 31, 2014.
Revenue generated by our owned and operated web properties (which includes HSW) decreased $3.1 million, or 6%, primarily due to a decrease in revenue from our legacy owned and operated web properties and lower returns on online marketing, whereby the lower returns were affected by the same factors described above that impacted the quarterly period. These decreases were offset by the revenue contribution from HSW.
Search and Content operating income decreased approximately $26.2 million, consisting of the $107.0 million decrease in revenue and offset by a decrease of $80.8 million in operating expenses. The decrease in Search and Content segment operating expenses primarily was due to an $83.1 million, or 51%, decrease in Search and Content services cost of revenue, which was mainly driven by the decrease in revenue share owed to our distribution partners resulting from the decrease in distribution revenue, and decreased content costs. This decrease was offset by a $2.1 million increase in personnel expenses primarily due to the timing of the HSW acquisition and a $0.5 million increase in spending on online marketing. Segment margin decreased primarily due to increased personnel expenses and flat non-personnel operating expenses on declining revenues, as well as the lower return on our online marketing.
Tax Preparation

(In thousands, except percentages)	Three months ended September 30,			Nine months ended September 30,		
	2015	2014	Percentage Change	2015	2014	Percentage Change
Revenue	$2,875	$2,469	16 %	$114,843	$101,200	13 %
Operating income (loss)	$(2,542)	$(1,859)	37 %	$61,493	$52,754	17 %
Segment margin	(88)%	(75)%		54 %	52 %	

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 or Ultimate offerings 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 and small business 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 largely is driven by our ability to acquire new users of the service, retain existing users, and upsell users to paid offerings 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 consider growth in the number of e-files to be the most important non-financial metric in measuring the performance of the tax preparation business.
Three months ended September 30, 2015 compared with three months ended September 30, 2014
Tax Preparation revenue increased primarily due to growth in online consumer users and increased sales of ancillary services.
Tax Preparation operating loss increased approximately $0.7 million, consisting primarily of an increase of $1.1 million in operating expenses. The increase in Tax Preparation segment operating expenses primarily was due to an increase in personnel expenses resulting from higher headcount supporting all functions.
Nine months ended September 30, 2015 compared with nine months ended September 30, 2014
Tax Preparation revenue increased approximately $13.6 million primarily due to growth in revenue earned from online consumer users, increased sales of ancillary services, mostly related to bank services, and increased sales of our professional

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tax preparer software. Online consumer revenue grew, despite a slight decrease in e-files, due to growth in average revenue per user, primarily resulting from pricing actions and their related timing when compared to the prior year. Revenue derived from professional tax preparers also contributed to the increase, with an increase in the number of professional preparer units sold and growth in average revenue per user.

Tax Preparation operating income increased approximately $8.7 million, consisting of the $13.6 million increase in revenue and offset by an increase of $4.9 million in operating expenses. The increase in Tax Preparation segment operating expenses primarily was due to an increase in personnel expenses resulting from higher headcount supporting all functions and increased spending on marketing campaigns for the current tax season.

E-Commerce

(In thousands, except percentages)	Three months ended September 30,			Nine months ended September 30,		
	2015	2014	Percentage Change	2015	2014	Percentage Change
Revenue	$38,806	$37,970	2 %	$109,764	$110,408	(1)%
Operating income	$2,188	$3,336	(34)%	$7,374	$9,192	(20)%
Segment margin	6 %	9 %		7 %	8 %	

E-Commerce revenue growth largely is driven by our ability to increase the number of Monoprice.com orders and extend our sales channels. Order numbers represent the number of orders fulfilled directly from our warehouses and do not include the number of orders fulfilled by our resellers. Order numbers changed as follows:

	Three months ended September 30, 2015	Nine months ended September 30, 2015
Order numbers	(5)%	(7)%

Three months ended September 30, 2015 compared with three months ended September 30, 2014

E-Commerce revenue increased approximately $0.8 million, primarily due to an increase in average order value offset by a decrease in the number of orders and increased promotional discounts offered in the current period. The increase in average order value was driven by a shift in the mix of sales with a greater percentage of sales through our marketplace partners, which have higher average order values in the current quarter due to the mix of products sold through such partners.

E-Commerce operating income decreased approximately $1.1 million, consisting of the $0.8 million increase in revenue and offset by an increase of $2.0 million in operating expenses. The increase in E-Commerce segment operating expenses primarily was due to an increase in E-Commerce product cost of revenue, given the increase in product revenue as well as a shift in the mix of sales of certain products with higher costs, offset by a decrease in advertising and marketing expenses due to a short-term advertising consulting arrangement that concluded in 2014 and marketing subsidies received from certain marketplace partners in 2015.

As disclosed in the “Strategic Transformation” section in Part I Item 2 of this quarterly report, we announced our plans to explore the divestiture of the E-Commerce segment. Refer to that section for additional details.

Nine months ended September 30, 2015 compared with nine months ended September 30, 2014

E-Commerce revenue decreased approximately $0.6 million, primarily due to a decrease in the number of orders and increased promotional discounts offered in the current period, offset by an increase in average order value. The order number decrease was affected by the impacts of inventory challenges experienced in the first quarter of 2015 due to port slowdowns. The increase in average order value was driven by a shift in the mix of sales with a greater percentage of sales through our marketplace partners, which have higher average order values in the current period due to the mix of products sold through such partners, as well as an increase in sales through Amazon, our primary reseller. The increase in revenue through Amazon also compressed total order numbers and contributed to the order number decrease.

E-Commerce operating income decreased approximately $1.8 million, consisting of the $0.6 million decrease in revenue and an increase of $1.2 million in operating expenses. The increase in E-Commerce segment operating expenses primarily was due to an increase in E-Commerce product cost of revenue, mainly related to a shift in the mix of sales of certain products with higher costs, offset by decreases in advertising and marketing expenses and personnel expenses. Advertising and marketing

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expenses decreased primarily due to a short-term advertising consulting arrangement that concluded in 2014 and marketing subsidies received from certain marketplace partners in 2015. The decrease in personnel expenses was primarily due to a $1.2 million charge in the second quarter of 2014 related to the resignation of the former President of Monoprice. Refer to our Quarterly Report on Form 10-Q for the period ended June 30, 2014 for additional information regarding the arrangement with the former President of Monoprice.

Corporate-Level Activity

(In thousands)	Three months ended September 30,			Nine months ended September 30,		
	2015	2014	Change	2015	2014	Change
Operating expenses	$5,757	$3,524	$2,233	$14,328	$10,579	$3,749
Stock-based compensation	3,310	2,608	702	9,357	8,974	383
Depreciation	1,514	1,385	129	4,485	4,194	291
Amortization of intangible assets	7,260	7,993	(733)	23,221	23,104	117
Total corporate-level activity	$17,841	$15,510	$2,331	$51,391	$46,851	$4,540

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

Three months ended September 30, 2015 compared with three months ended September 30, 2014

Operating expenses included in corporate-level activity increased primarily due to a $1.4 million increase in professional services fees mainly from acquisition-related activity and a $0.3 million increase in personnel expenses, resulting from higher headcount to support operations. Contributing to the increase in corporate-level expense activity, to a lesser extent, was a net decrease in capitalized internally developed software. Internally developed software expense is recorded within our segments with the related cost capitalization benefit recorded within corporate-level activity. As disclosed in the “Strategic Transformation” section in Part I Item 2 of this quarterly report, we announced our plans to reduce corporate operating expenses in connection with that transformation. Refer to that section for additional details.

Stock-based compensation increased primarily due to a net increase in stock award grants.

Depreciation was comparable to the prior period.

Amortization of intangible assets decreased primarily due to concluding the useful life of certain Monoprice acquisition-related intangible assets during 2015.

Nine months ended September 30, 2015 compared with nine months ended September 30, 2014

Operating expenses included in corporate-level activity increased primarily due to a $1.8 million increase in professional services fees mainly from acquisition-related activity and a $1.0 million increase in personnel expenses, resulting from higher headcount to support operations. Contributing to the increase in corporate-level expense activity, to a lesser extent, was a net decrease in capitalized internally developed software, similar to the quarterly period above.

Stock-based compensation increased primarily due to a net increase in stock award grants, offset by stock-based compensation on the stock options that vested upon the completion of the HSW acquisition in the second quarter of 2014.

Depreciation was comparable to the prior period.

Amortization of intangible assets was comparable to the prior period, although it was impacted by amortization expense associated with the acquisition of HSW, offset by lower amortization expense associated with concluding the useful life of certain Monoprice acquisition-related intangible assets during 2015.

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OPERATING EXPENSES

Cost of Revenues

(In thousands, except percentages)	Three months ended September 30,			Nine months ended September 30,		
	2015	2014	Change	2015	2014	Change
Services cost of revenue	$28,492	$49,754	$(21,262)	$94,204	$177,280	$(83,076)
Product cost of revenue	28,523	25,605	2,918	77,878	73,771	4,107
Total cost of revenues	$57,015	$75,359	$(18,344)	$172,082	$251,051	$(78,969)
Percentage of revenues	67 %	66 %		45 %	53 %	

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

Three months ended September 30, 2015 compared with three months ended September 30, 2014

Services cost of revenue decreased primarily due to decreased Search and Content services cost of revenue of $21.4 million, driven by the decrease in revenue generated from, and the resulting revenue share owed to, our distribution partners and decreased content costs.

Product cost of revenue increased primarily due to the increase in E-Commerce product revenue and a shift in the mix of sales of certain products with higher costs.

Nine months ended September 30, 2015 compared with nine months ended September 30, 2014

Services cost of revenue decreased primarily due to decreased Search and Content services cost of revenue of $83.1 million, driven by the decrease in revenue generated from, and the resulting revenue share owed to, our distribution partners and decreased content costs.

Product cost of revenue increased primarily due to a shift in the mix of sales of certain products with higher costs.

Engineering and Technology

(In thousands, except percentages)	Three months ended September 30,			Nine months ended September 30,		
	2015	2014	Change	2015	2014	Change
Engineering and technology	$5,418	$5,970	$(552)	$15,803	$14,922	$881
Percentage of revenues	6 %	5 %		4 %	3 %	

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

Three months ended September 30, 2015 compared with three months ended September 30, 2014

Engineering and technology expenses decreased primarily due to decreased professional services fees with the conclusion of various development projects and decreased network costs related to the migration of the Search office data center to the cloud in 2015, offset by a net decrease in capitalized internally developed software.

Nine months ended September 30, 2015 compared with nine months ended September 30, 2014
Engineering and technology expenses increased primarily due to a $1.8 million net increase in personnel expenses mainly related to the timing of the HSW acquisition in our Search and Content segment and higher headcount in our Tax Preparation segment. Contributing to the increase in expense, to a lesser extent, was a net decrease in capitalized internally developed software. These increases were offset by decreased professional services fees with the conclusion of various development projects and decreased network costs related to the migration of the Search office data center to the cloud in 2015.
Sales and Marketing

(In thousands, except percentages)	Three months ended September 30,			Nine months ended September 30,		
	2015	2014	Change	2015	2014	Change
Sales and marketing	$16,933	$18,152	$(1,219)	$98,416	$96,275	$2,141
Percentage of revenues	20 %	16 %		26 %	20 %	

Sales and marketing expenses consist principally of marketing expenses associated with our TaxACT and Monoprice websites (which include television, radio, online, text, email, and sponsorship channels), our owned and operated web properties (which consist of traffic acquisition, including 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 (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 costs) related to purchasing, customer and technical support, receiving, inspection and warehouse functions, the cost of temporary help and contractors to augment staffing, and credit card processing fees.
Three months ended September 30, 2015 compared with three months ended September 30, 2014
Sales and marketing expenses decreased primarily due to a decrease of $2.4 million in marketing expenses, driven by a $1.7 million decrease in marketing expenses in our Search and Content segment from decreased online marketing and a decrease in advertising and marketing expenses in our E-Commerce segment primarily due to a short-term advertising consulting arrangement that concluded in 2014 and marketing subsidies received from certain marketplace partners in 2015. These decreases were offset by a $1.1 million increase in personnel expenses mainly related to employee separation costs and higher stock-based compensation. The higher stock-based compensation mainly related to a net increase in stock award grants.
Nine months ended September 30, 2015 compared with nine months ended September 30, 2014
Sales and marketing expenses increased primarily due to a $0.9 million increase in personnel expenses mainly related to higher headcount in our Tax Preparation segment and a net increase of $0.6 million in marketing expenses. Marketing expenses were driven by increased marketing campaign activity for the current tax season by our Tax Preparation segment, offset by a decrease in advertising and marketing expenses in our E-Commerce segment primarily due to a short-term advertising consulting arrangement that concluded in 2014 and marketing subsidies received from certain marketplace partners in 2015.
General and Administrative

(In thousands, except percentages)	Three months ended September 30,			Nine months ended September 30,		
	2015	2014	Change	2015	2014	Change
General and administrative	$12,513	$9,495	$3,018	$33,936	$28,552	$5,384
Percentage of revenues	15 %	8 %		9 %	6 %	

General and administrative ("G&A") expenses consist primarily of personnel expenses (salaries, stock-based compensation, benefits, and other employee-related costs), the cost of temporary help and contractors to augment staffing, professional services fees (which include legal, audit, and tax fees), general business development and management expenses, occupancy and general office expenses, business taxes, and insurance expenses.
Three months ended September 30, 2015 compared with three months ended September 30, 2014
G&A expenses increased primarily due to a $1.4 million increase in professional services fees mainly from acquisition-related activity and a $1.3 million increase in personnel expenses. The increase in personnel expenses was due to higher

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overall headcount to support operations and higher stock-based compensation. The higher stock-based compensation mainly related to a net increase in stock award grants.

Nine months ended September 30, 2015 compared with nine months ended September 30, 2014

G&A expenses increased primarily due to a $2.6 million net increase in personnel expenses, a $1.8 million increase in professional services fees mainly from acquisition-related activity, and, to a lesser extent, increases in rent and facilities expenses. The net increase in personnel expenses was due to higher overall headcount to support operations and higher stock-based compensation, offset by the $1.2 million charge in the second quarter of 2014 related to the resignation of the former President of Monoprice. The higher stock-based compensation mainly related to a net increase in stock award grants, offset by stock-based compensation on the stock options that vested upon the completion of the HSW acquisition in the second quarter of 2014.

Depreciation and Amortization of Intangible Assets

(In thousands, except percentages)	Three months ended September 30,			Nine months ended September 30,		
	2015	2014	Change	2015	2014	Change
Depreciation	$1,215	$1,085	$130	$3,540	$3,278	$262
Amortization of intangible assets	5,349	6,118	(769)	17,585	17,463	122
Total depreciation and amortization of intangible assets	$6,564	$7,203	$(639)	$21,125	$20,741	$384
Percentage of revenues	8%	6%		6%	4%	

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

Three months ended September 30, 2015 compared with three months ended September 30, 2014

Depreciation was comparable to the prior period.

Amortization of intangible assets decreased primarily due to concluding the useful life of certain Monoprice acquisition-related intangible assets during 2015.

Nine months ended September 30, 2015 compared with nine months ended September 30, 2014

Depreciation was comparable to the prior period.

Amortization of intangible assets was comparable to the prior period, although it was impacted by amortization expense associated with the acquisition of HSW, offset by lower amortization expense associated with concluding the useful life of certain Monoprice acquisition-related intangible assets during 2015.

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Other Loss, Net

(In thousands)	Three months ended September 30,			Nine months ended September 30,		
	2015	2014	Change	2015	2014	Change
Interest income	$(138)	$(71)	$(67)	$(380)	$(267)	$(113)
Interest expense	2,443	2,706	(263)	7,703	8,485	(782)
Amortization of debt issuance costs	300	288	12	943	853	90
Accretion of debt discounts	975	931	44	3,064	2,753	311
Realized (gain) loss on available-for-sale investments, net	(105)	(6)	(99)	312	(6)	318
Other-than-temporary impairment loss on equity securities	—	—	—	964	—	964
Decrease in pre-acquisition liability	—	(665)	665	—	(665)	665
Gain on third party bankruptcy settlement	(224)	—	(224)	(1,066)	(167)	(899)
Other	24	25	(1)	38	15	23
Other loss, net	$3,275	$3,208	$67	$11,578	$11,001	$577

Three months ended September 30, 2015 compared with three months ended September 30, 2014

The decrease in interest expense primarily related to lower balances on the Monoprice and TaxACT credit facilities.

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

The gain on third party bankruptcy settlement related to amounts received in connection with ongoing distributions from the Lehman Brothers estate, of which we are a creditor.

Nine months ended September 30, 2015 compared with nine months ended September 30, 2014

Interest expense, the decrease in pre-acquisition liability, and the gain on third party bankruptcy settlement were affected by the same factors described above that impacted the quarterly period.

The increases in amortization of debt issuance costs and accretion of debt discounts primarily related to the full repayment in March 2015 of the Monoprice 2013 credit facility's term loan, at which point the remaining unamortized debt issuance costs and debt discounts related to the term loan were written off.

Realized (gain) loss on available-for-sale investments, net resulted primarily from the sale of marketable equity securities.

As part of our periodic review of available-for-sale investments for impairment, we recorded an other-than-temporary impairment loss on our equity securities in the second quarter of 2015 due to the length of time and extent to which the fair value of the securities had been less than their cost.

Income Taxes

We recorded an income tax benefit of $6.3 million and income tax expense of $8.9 million in the three and nine months ended September 30, 2015, respectively. We recorded an income tax benefit of $2.3 million and income tax expense of $17.6 million in the three and nine months ended September 30, 2014, respectively. Income taxes did not differ materially from taxes at the statutory rates in 2015 or 2014.

NON-GAAP FINANCIAL MEASURES

Adjusted EBITDA: We define Adjusted EBITDA differently for this report than we have defined it in the past, due to the impairment of goodwill and intangible assets recorded in the fourth quarter of 2014. We define Adjusted EBITDA as net income, determined in accordance with GAAP, excluding the effects of income taxes, depreciation, amortization of intangible

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

(In thousands)	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Net income (loss)	$(10,611)	$(2,238)	$16,740	$32,486
Stock-based compensation	3,310	2,608	9,357	8,974
Depreciation and amortization of intangible assets	8,774	9,378	27,706	27,298
Other loss, net	3,275	3,208	11,578	11,001
Income tax (benefit) expense	(6,326)	(2,294)	8,903	17,579
Adjusted EBITDA	$(1,578)	$10,662	$74,284	$97,338

Three months ended September 30, 2015 compared with three months ended September 30, 2014
The decrease in Adjusted EBITDA was due to decreases in segment operating income of $8.2 million, $1.1 million, and $0.7 million related to our Search and Content, E-Commerce, and Tax Preparation segments, respectively. Also contributing to the decrease in Adjusted EBITDA was a $2.2 million increase in corporate operating expenses not allocated to the segments mainly related to increases in professional services fees (mainly from acquisition-related activity) and personnel expenses (due to higher headcount to support operations).
Nine months ended September 30, 2015 compared with nine months ended September 30, 2014
The decrease in Adjusted EBITDA was due to decreases in segment operating income of $26.2 million and $1.8 million related to our Search and Content and E-Commerce segments, respectively, offset by an increase in segment operating income of $8.7 million related to growth in our Tax Preparation segment. Also contributing to the decrease in Adjusted EBITDA was a $3.7 million increase in corporate operating expenses not allocated to the segments mainly related to increases in professional services fees (mainly from acquisition-related activity) and personnel expenses (due to higher headcount to support operations).
Non-GAAP net income: We define non-GAAP net income differently for this report than we have defined it in the past, due to the impairment of goodwill and intangible assets recorded in the fourth quarter of 2014 and amounts recorded in other loss, net that resulted from an other-than-temporary impairment loss recognized on equity securities in the second quarter of 2015 and adjustments related to finalizing Monoprice's 2013 federal and state tax returns in the third quarter of 2014. For this report, we define non-GAAP net income as net income, determined in accordance with GAAP, excluding the effects of stock-based compensation, amortization of acquired intangible assets, impairment of goodwill and intangible assets, accretion of debt discount on the Convertible Senior Notes, other-than-temporary impairment loss on equity securities, changes in non-cash pre-acquisition liabilities, and the related cash tax impact of those adjustments, and non-cash income taxes. We exclude the non-cash portion of income taxes because of our ability to offset a substantial portion of our cash tax liabilities by using deferred tax assets, which primarily consist of U.S. federal net operating losses. The majority of these deferred tax assets will expire, if unutilized, between 2020 and 2024.

We believe that non-GAAP net income and non-GAAP net income per share provide meaningful supplemental information to management, investors, and analysts regarding our performance and the valuation of our business by excluding items in the statement of operations that we do not consider part of our ongoing operations or have not been, or are not

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

(In thousands, except per share amounts)	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Net income (loss)	$(10,611)	$(2,238)	$16,740	$32,486
Stock-based compensation	3,310	2,608	9,357	8,974
Amortization of acquired intangible assets	7,260	7,993	23,221	23,104
Accretion of debt discount on Convertible Senior Notes	975	907	2,873	2,671
Other-than-temporary impairment loss on equity securities	—	—	964	—
Decrease in non-cash pre-acquisition liability	—	(665)	—	(665)
Cash tax impact of adjustments to GAAP net income	(166)	(44)	(426)	(295)
Non-cash income tax (benefit) expense	(6,269)	(2,017)	4,708	14,180
Non-GAAP net income (loss)	$(5,501)	$6,544	$57,437	$80,455
Per diluted share:				
Net income (loss)	$(0.26)	$(0.05)	$0.40	$0.75
Stock-based compensation	0.08	0.06	0.22	0.21
Amortization of acquired intangible assets	0.18	0.19	0.56	0.53
Accretion of debt discount on Convertible Senior Notes	0.02	0.02	0.07	0.06
Other-than-temporary impairment loss on equity securities	—	—	0.02	—
Decrease in non-cash pre-acquisition liability	—	(0.02)	—	(0.01)
Cash tax impact of adjustments to GAAP net income	(0.00)	(0.00)	(0.01)	(0.01)
Non-cash income tax (benefit) expense	(0.15)	(0.05)	0.11	0.33
Non-GAAP net income (loss)	$(0.13)	$0.15	$1.37	$1.86
Weighted average shares outstanding used in computing per diluted share amounts	40,950	42,305	41,911	43,303

Three months ended September 30, 2015 compared with three months ended September 30, 2014

The decrease in non-GAAP net income primarily was due to decreases in segment operating income of $8.2 million, $1.1 million, and $0.7 million related to our Search and Content, E-Commerce, and Tax Preparation segments, respectively. Also contributing to the decrease in non-GAAP net income was a $2.2 million increase in corporate operating expenses not allocated to the segments mainly related to increases in professional services fees (mainly from acquisition-related activity) and personnel expenses (due to higher headcount to support operations).

Nine months ended September 30, 2015 compared with nine months ended September 30, 2014

The decrease in non-GAAP net income primarily was due to decreases in segment operating income of $26.2 million and $1.8 million related to our Search and Content and E-Commerce segments, respectively, offset by an increase in segment operating income of $8.7 million related to growth in our Tax Preparation segment. Also contributing to the decrease in non-GAAP net income was a $3.7 million increase in corporate operating expenses not allocated to the segments mainly related to increases in professional services fees (mainly from acquisition-related activity) and personnel expenses (due to higher headcount to support operations), as well as a $0.9 million increase in cash income tax expense mainly related to higher state taxes. Offsetting the decrease in non-GAAP net income was a $0.8 million decrease in interest expense mainly related to lower balances on the Monoprice and TaxACT credit facilities.

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LIQUIDITY AND CAPITAL RESOURCES

Cash, Cash Equivalents, and Short-Term Investments

Our principal source of liquidity is our cash, cash equivalents, and short-term investments. As of September 30, 2015, we had cash and marketable investments of approximately $292.3 million, consisting of cash and cash equivalents of $59.6 million and available-for-sale investments of $232.7 million. We generally invest our excess cash in high quality marketable investments. These investments can include debt securities issued by the U.S. federal government and its agencies, international governments, municipalities and publicly-held corporations, as well as insured time deposits with commercial banks, money market funds invested in securities issued by agencies of the U.S., and equity securities. A significant portion of our financial instrument investments held at September 30, 2015 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 quarterly report) under the heading “Existing cash and cash equivalents, short-term investments, and cash generated from operations may not be sufficient to meet our anticipated cash needs for servicing debt, working capital, and capital expenditures.”

Use of Cash

We may use our cash, cash equivalents, and short-term investments balance in the future on investment in our current businesses, in acquiring new businesses or assets, for repayment of debt, or for stock repurchases. Such businesses or assets may not be related to Search and Content, Tax Preparation, or E-Commerce, and such acquisitions will result in further transaction-related costs.

As disclosed in the “Strategic Transformation” section in Part I Item 2 of this quarterly report, we announced our plans for a strategic transformation of the Company to focus on the financial services and technology market. This transformation consists of plans to acquire HD Vest, divest our Search and Content and E-Commerce segments, and reduce corporate operating expenses. We also expect to shift our capital allocation priorities to pay down debt and eventually return capital to shareholders in the form of share repurchases or dividends. Refer to that section for additional details.

On July 2, 2015, TaxACT acquired all of the equity of SimpleTax for C$2.4 million (with C$ indicating Canadian dollars and amounting to approximately $1.9 million based on the acquisition-date exchange rate) in cash and additional consideration of up to C$4.6 million ($3.7 million) that is contingent upon product availability and revenue performance over a three-year period.

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

On November 22, 2013, Monoprice entered into a credit facility agreement 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 and, until repaid in full in 2015 as discussed below, also consisted of a $40.0 million term loan for an initial aggregate $70.0 million credit facility. 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 September 30, 2015. Monoprice initially borrowed $50.0 million under the credit facility, from both the revolving credit loan and the term loan, receiving net proceeds of approximately $49.3 million. Monoprice had net repayment activity of $12.0 million and $6.0 million during the nine months ended September 30, 2015 and 2014, respectively. The 2015 net repayment activity included the full repayment of the outstanding amount under the credit facility's term loan, although amounts remain outstanding under the revolving credit loan. For further detail, see “Note 6: Debt” of the Notes to Unaudited Condensed Consolidated Financial Statements in Part I Item 1 of this report.

On August 30, 2013, TaxACT entered into an agreement to refinance a 2012 credit facility on more favorable terms. The 2013 credit facility consists of a revolving credit commitment that reduced to $80.0 million on August 30, 2015 and will reduce 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

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agreement. We were in compliance with these covenants as of September 30, 2015. TaxACT initially borrowed approximately $71.4 million under the 2013 credit facility. TaxACT had net repayment activity of $51.9 million and $52.0 million during the nine months ended September 30, 2015 and 2014, respectively. The 2015 net repayment activity included the full repayment of amounts outstanding under the credit facility. The credit facility continues to be available to TaxACT through its final maturity date. For further detail, see “Note 6: Debt” of the Notes to Unaudited Condensed Consolidated Financial Statements in Part I Item 1 of this report.

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

Our Board of Directors approved a stock repurchase program whereby we may purchase our common stock in open-market transactions. In May 2014, our Board of Directors increased the repurchase authorization, such that we may repurchase up to $85.0 million of our common stock, and extended the repurchase period through May 2016. During the nine months ended September 30, 2015, we purchased 0.5 million shares in open-market transactions at a total cost of approximately $7.0 million and an average price of $14.46 per share, exclusive of purchase and administrative costs. During the nine months ended September 30, 2014, we purchased 1.7 million shares in open-market transactions at a total cost of approximately $29.9 million and an average price of $17.68 per share, exclusive of purchase and administrative costs. As of September 30, 2015, we may repurchase an additional $29.4 million, which takes into consideration share repurchases during 2013 and 2014 of $48.6 million, of our common stock under the repurchase program. For further detail, see “Note 8: Stockholders’ Equity” of the Notes to Unaudited Condensed Consolidated Financial Statements in Part I Item 1of this report.

Contractual Obligations and Commitments

Except for the additions related to the contingent consideration liability for the SimpleTax acquisition as disclosed in “Note 3: Business Combinations” and the operating lease for the E-Commerce Kentucky warehouse, as well as the debt repayments as disclosed in “Note 6: Debt” of the Notes to Unaudited Condensed Consolidated Financial Statements in Part I Item 1 of this report, there have been no material changes during the period covered by this Quarterly Report on Form 10-Q, outside of the ordinary course of our business, to the contractual obligations and commitments specified in “Note 8: Commitments and Contingencies” in Part II Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2014.

Off-balance Sheet Arrangements

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

Cash Flows

Our cash flows were comprised of the following:

(In thousands)	Nine months ended September 30,	
	2015	2014
Net cash provided by operating activities	$30,940	$51,158
Net cash provided (used) by investing activities	15,282	(64,321)
Net cash used by financing activities	(33,022)	(56,868)
Effect of exchange rate changes on cash and cash equivalents	(6)	—
Net increase (decrease) in cash and cash equivalents	$13,194	$(70,031)

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 $30.9 million and $51.2 million for the nine months ended September 30, 2015 and 2014, respectively. The activity in the nine months ended September 30, 2015 included a $37.0 million working

capital contribution offset by approximately $6.0 million of non-cash adjustments and net income. 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 and also was affected by decreases in prepaid expenses and other current assets due to the timing of TaxACT's spending on marketing campaigns for the tax season, offset by higher Monoprice inventory balances due to inventory build for the upcoming holiday season and, to a lesser extent, the impacts of port slowdowns experienced through the second quarter of 2015. Accounts receivable and accounts payable reflected lower Search and Content distribution revenue and the resulting revenue share owed to our distribution partners.

The activity in the nine months ended September 30, 2014 included approximately $30.1 million of net income (offset by non-cash adjustments) and a $21.0 million working capital contribution. The working capital contribution was driven by accrued expenses and the impact of excess tax benefits from stock-based activity, offset by reduced payable and accrual balances related to Monoprice inventory purchases and the Search and Content business' online marketing spending. Accounts receivable and accounts payable reflected lower Search and Content distribution revenue and the resulting revenue share owed to our distribution partners.

Net cash from investing activities: Net cash from investing activities primarily consists of cash outlays for business acquisitions, transactions (purchases of and proceeds from sales and maturities) related to our investments, and purchases of property and equipment and intangible assets. 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 $15.3 million for the nine months ended September 30, 2015, and net cash used by investing activities was $64.3 million for the nine months ended September 30, 2014. The activity in the nine months ended September 30, 2015 primarily consisted of net cash inflows on our available-for-sale investments of $20.8 million offset by approximately $1.7 million for the acquisition of SimpleTax and $3.1 million and $0.7 million in purchases of property and equipment and intangible assets, respectively. The activity in the nine months ended September 30, 2014 primarily consisted of the acquisition of HSW for $44.9 million, net cash outlays on our available-for-sale investments of $15.1 million, and $4.2 million in purchases of property and equipment.

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 $33.0 million and $56.9 million for the nine months ended September 30, 2015 and 2014, respectively. The activity for the nine months ended September 30, 2015 primarily consisted of combined payments of $83.9 million on the Monoprice and TaxACT credit facilities (which included the full repayments of the Monoprice credit facility's term loan and amounts outstanding under the TaxACT credit facility), stock repurchases of $7.1 million, and $1.2 million in tax payments from shares withheld upon vesting of restricted stock units. These cash outflows were offset by approximately $35.6 million in excess tax benefits from stock-based award activity primarily due to utilizing equity net operating loss carryforwards from prior years, $20.0 million in proceeds from the Monoprice credit facility, and $3.6 million in combined proceeds from the issuance of common stock related to stock option exercises and the employee stock purchase plan.

The activity for the nine months ended September 30, 2014 primarily consisted of combined payments of $62.0 million on the Monoprice and TaxACT credit facilities, stock repurchases of $29.9 million, and $2.6 million in tax payments from shares withheld upon vesting of restricted stock units. These cash outflows were offset by approximately $29.8 million in excess tax benefits from stock-based award activity primarily due to utilizing equity net operating loss carryforwards from prior years, $4.0 million in proceeds from the TaxACT credit facility, and $3.8 million in combined proceeds from the issuance of common stock related to stock option exercises and the employee stock purchase plan.

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, expenses, and disclosure of contingent assets and liabilities. We base our estimates on historical experience and other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates. Our critical accounting policies, estimates,

and methodologies for the nine months ended September 30, 2015 were consistent with those in Part II Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2014, with the following updates:
Business combinations and intangible assets including goodwill: We account for business combinations using the acquisition method. The acquisition-date fair value of total consideration includes cash and contingent consideration. Since we

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are contractually obligated to pay contingent consideration upon the achievement of specified objectives, a contingent consideration liability is recorded at the acquisition date and is classified within Level 3 of the fair value hierarchy because we value the liability utilizing significant inputs not observable in the market. Specifically, we have determined the fair value of the contingent consideration liability based on a probability-weighted discounted cash flow analysis, which includes assumptions related to estimating revenues, the probability of payment, and the discount rate. We review our assumptions related to the fair value of the contingent consideration liability each reporting period and, if there are material changes, revalue the contingent consideration liability based on the revised assumptions, until such contingency is satisfied through payment upon the achievement of the specific objectives. The change in the fair value of the contingent consideration liability is recognized in the consolidated statements of comprehensive income for the period in which the fair value changes. If we use different assumptions due to changes in our business or other factors, the fair value of the contingent consideration liability could vary materially in the future.

Goodwill and intangible assets impairment: As disclosed in “Note 4: Goodwill and Other Intangible Assets” of the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2014, we performed quantitative assessments of goodwill and indefinite-lived intangible assets for impairment for each of our reporting units as of November 30, 2014. As a result of these quantitative assessments, we recorded an impairment of goodwill and intangible assets of $62.8 million in the fourth quarter of 2014 primarily related to our E-Commerce business.

As of November 30, 2014, we believed that the estimated fair value of the Tax Preparation reporting unit substantially exceeded its carrying value. The Search and Content and E-Commerce reporting units had fair values that exceeded their carrying values, after adjusting the carrying value of the E-Commerce reporting unit for goodwill and intangible impairments, by 35% and 16%, respectively. Key assumptions utilized in determining fair value included the weighted average cost of capital, long-term rates of revenue growth and/or profitability of our businesses, and working capital effects. A deterioration in these assumptions or other unforeseen events--such as market disruptions and deterioration of the macroeconomic environment or internal challenges related to reorganizations, employee and management turnover, and other trends--could have material negative impacts on our key assumptions in determining fair values and could lead to a decision to impair goodwill and/or intangible assets in future periods.

Recent Accounting Pronouncements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes to our market risk during the nine months ended September 30, 2015. For additional information, see Part II Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2014.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the third quarter of 2015 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II—OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

RISKS RELATED TO OUR PENDING TRANSACTION WITH HD VEST

We may not complete the pending acquisition of HD Vest within the time frame we anticipate or at all, which could have a negative effect on our business, financial condition, and results of operations.

On October 14, 2015, we announced that we had entered into a definitive agreement to acquire HDV Holdings, Inc., the holding company for the group of companies that comprise the HD Vest Financial Services® business, for total consideration of $580.0 million in cash, subject to adjustments (the "HD Vest Acquisition"). For further discussion of the terms of the HD Vest Acquisition, see the "Strategic Transformation" section in Part I Item 2 of this quarterly report. The consummation of the HD Vest Acquisition is subject to the satisfaction or waiver of certain closing conditions, including (i) the approval of the HD Vest Acquisition by the Financial Industry Regulatory Authority; (ii) the termination or expiration of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended; (iii) the retention of a certain number of representatives of HD Vest and a certain level of assets under administration or management; (iv) the retention of HD Vest's Chief Executive Officer, or if he has died or become disabled, the retention of certain other members of HD Vest's management; (v) the absence of any material adverse effect; and (vi) other customary closing conditions. A number of these conditions are outside of our control. The satisfaction of these conditions may take longer than expected, may require us or HD Vest to incur significant costs or take other steps that could negatively impact our or HD Vest's business, or may not occur at all. The failure to consummate the HD Vest Acquisition, or any material delay in closing, could materially undermine our strategy to focus our company on financial services and technology and damage our reputation. In addition, we will have spent considerable time and resources and incurred substantial costs, many of which must be paid even if the HD Vest Acquisition is not consummated. If we fail to close the HD Vest Acquisition despite the satisfaction or waiver of the closing conditions, we would be required to pay the seller a termination fee of $40.0 million or $50.0 million, depending on when the transaction is terminated due to our failure to close. Any of these factors could harm our business, financial condition, and results of operations and cause the market price of our common stock to decline.

If we consummate the HD Vest acquisition, we may face significant disruptions, integration difficulties, and other risks.

If it is completed, the HD Vest Acquisition involves numerous risks, including the following:

- During the period until and after we consummate the HD Vest Acquisition, uncertainty and disruptions may negatively impact HD Vest's relationships with its employees, its independent advisors and representatives, or those advisors' and representatives' relationships with their clients, which could harm HD Vest's financial condition and results of operations;
- We may fail to realize the anticipated benefits of the HD Vest Acquisition, including the expected operational, revenue, and cost synergies with our TaxACT business and the level of revenue and profitability growth that we are expecting;
- We may face difficulties, including loss of key employees, disruptions in our ongoing operations, and diversion of our and HD Vest's management's attention from ongoing operations and opportunities, in integrating the operations, technologies, products, services, IT systems, controls, and policies and procedures of HD Vest with our other businesses and in upgrading our internal control over financial reporting and disclosure controls and procedures to incorporate the HD Vest operations;
- The failure to retain key management responsible for the operations of HD Vest could negatively impact those operations, particularly due to the fact that our management team lacks significant experience in the financial services industry;
- Even if we retain HD Vest's key management and other employees, we will need to attract and retain additional management resources to continue to successfully implement our change in strategy to a company focused on financial services and technology;

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- After we acquire HD Vest, our management's attention may be diverted from the daily operations of our existing businesses and from the execution of our plans to divest the InfoSpace and Monoprice businesses;
- Our financial results may be negatively impacted by cash expenses and non-cash charges incurred in connection with the HD Vest Acquisition or in the future if goodwill or other intangible assets we acquire in the HD Vest Acquisition become impaired;
- Notwithstanding the due diligence investigation we performed in connection with the HD Vest Acquisition, HD Vest may have liabilities, losses, or other exposures (including regulatory risks) for which we do not have adequate insurance coverage, indemnification, or other protection;
- We will incur substantial additional indebtedness to finance the HD Vest Acquisition, becoming vulnerable to increased debt service requirements should interest rates rise, reducing the amount of expected cash flow available for other purposes, including capital expenditures and acquisitions, and limiting our flexibility in planning for, or reacting to, changes in our businesses and industries; and
- We will be exposed to new and additional risks as a result of the HD Vest Acquisition, including: competitive conditions in the industries in which HD Vest competes that may impact attraction and retention of independent advisors and representatives and their clients and the fees HD Vest charges for its products and services, significant regulatory risks that may result in the imposition of fines, penalties, restitution, and limits on our business (among other things), the need for substantial compliance-related investments, and exposure to fluctuations in macroeconomic and market conditions that impact retention of our independent advisors' and representatives' clients and assets under management.

RISKS RELATED TO OUR PROPOSED DIVESTURES OF OUR SEARCH AND CONTENT AND E-COMMERCE BUSINESSES

We may face significant challenges in our plans to divest our InfoSpace and Monoprice businesses.

In connection with our announcement of the HD Vest Acquisition, we also announced plans to divest our InfoSpace and Monoprice businesses as they no longer align with our new strategic focus on the financial services and technology industry. These planned divestitures pose risks and challenges that could negatively impact our business, financial condition, and results of operations, including:

- The uncertainty resulting from our announced plans to divest InfoSpace and Monoprice could cause significant disruptions in their businesses, including loss of key Search Customers, distribution partners, and suppliers or employees, that could harm the business, financial condition, and results of operations of our Search and Content and E-Commerce segments and make it difficult to complete the divestitures;
- Our management's attention to our ongoing operations, the completion of the HD Vest Acquisition, and the integration of HD Vest may be diverted by efforts to divest InfoSpace and Monoprice;
- There are significant risks and uncertainties in the sales process, including the timing and uncertainty of completion of any transaction and the fulfillment of closing conditions, some of which may be outside of our control;
- We may be unable to identify suitable buyers of either business on acceptable terms, or at all;
- Any significant delay in the completion of these divestitures, or the failure to complete the divestitures, may negatively impact our ability to implement our new strategic focus and delay repayment of indebtedness, achieve our previously announced plans to reduce corporate operating expenses, and shift our capital allocation approach to increase returns of capital to our shareholders beginning in 2017;
- Our results of operations may be negatively impacted by cash expenses and non-cash charges incurred in connection with the planned divestitures of InfoSpace and Monoprice, including retention and severance costs, transaction expenses, and asset impairment charges, which expenses and charges could be substantial whether or not we are able to divest these businesses;
- Even if we succeed in divesting InfoSpace or Monoprice, the terms of any transaction may require us to retain certain liabilities or provide the purchaser certain indemnification protection that could expose us to continued risks of these businesses;

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RISKS COMMON TO OUR EXISTING 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 such industries offer new and enhanced products and services every year. Consequently, customer expectations are constantly changing. We must successfully innovate and develop new products and features to meet evolving customer needs and demands, while continually updating our technology infrastructure. We must devote significant resources to continue to develop our skills, tools, and capabilities in order to capitalize on existing and emerging technologies. Our inability to quickly and effectively innovate our products, services, and 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 offerings through mobile devices has increased dramatically in the past few years. We have limited experience to date in mobile platform development, and our existing user experience may not be compelling on mobile devices. Given the speed at which new devices and platforms are being released, it is difficult to predict the problems we may encounter in developing versions of our products and services for use on newly developed devices, and we may need to devote significant resources to the creation, support, and maintenance of new user experiences. If we are slow to develop products and services that are compatible with these new devices, particularly if we cannot do so as quickly as our competitors, our market share will decline. 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 or otherwise be inadequate, 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 both internally developed and third-party systems, including cloud computing and storage systems, for our online services and certain aspects of transaction processing. Some of our systems are relatively new and untested and thus may be subject to failure or unreliability. Any system unavailability or unreliability may cause unanticipated system disruptions, slower response times, degradation in customer satisfaction, additional expense, or delays in reporting accurate financial information.

Our data centers and cloud service could be susceptible to damage or disruption, which could have a material adverse effect on our business. Our Search and Content and E-Commerce businesses rely on third-party co-location facilities and cloud service providers. Although these third party services provide some redundancy, not all of our systems and operations have backup redundancy. Our TaxACT business has a disaster recovery center, but if our primary data center fails and that disaster recovery center does not fully restore the failed environments, our TaxACT business will suffer, particularly if such interruption occurs during the "tax season."

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

If the volume of traffic to our infrastructure increases substantially, we must respond in a timely fashion by expanding and upgrading 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 limits 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 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, investigation and penalties by authorities, claims by persons whose information was disclosed, and damage to 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 or personal information or cause interruptions in our operations. Unauthorized access to, or abuse of, this information could result in significant harm to our business.

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

We are subject to laws, regulations, and industry rules relating to the collection, use, and security of user data. We expect regulation in this area to increase. As a result of such new regulation, our current data protection policies and practices may not be sufficient and thus may require modification. New regulations 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 materially 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 we may 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 may develop and deploy viruses, worms and other malicious software programs that can be used to attack our offerings. Although we utilize network and application security measures, internal controls, and physical security procedures to safeguard our systems, there can be no assurance that a security breach, intrusion, or loss or theft of personal information will not occur. Any such incident may materially harm our business, customer reputation and future financial results and may require us to expend significant resources to address these problems, including notification under data privacy regulations.

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

The success of our Search and Content, Tax Preparation, and E-Commerce businesses depends on the maintenance and expansion of the infrastructure of the Internet. In particular, we rely on other companies to maintain reliable network systems

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that provide adequate speed, data capacity, and security. As the Internet continues to experience growth in the number of users, frequency of use, and amount of data transmitted, the segments of the internet infrastructure that we rely on may be unable to support the demands placed upon it. The failure of any parts of the internet infrastructure that we rely on, even for a short period of time, would substantially undermine our operations and would have a material adverse effect on our business and financial results.

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

An important component of our strategy for future growth is to acquire new technologies and businesses. We may seek to acquire companies or assets that complement our existing businesses. We may also consider acquisitions of companies and assets that are not related to search, content, tax preparation, or e-commerce. We regularly explore such opportunities in the ordinary course of our business, and potential acquisition targets range in size from relatively small to a size comparable to or larger than our existing businesses 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 financing, 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 materially and 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 pay or expenses we incur.

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 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;

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- difficulties in acquiring foreign companies, including risks related to integrating operations across different cultures and languages, currency risks, and the particular economic, political, and regulatory risks associated with specific countries; and
- adverse outcome of litigation matters or other contingent liabilities assumed in or arising out of the acquisitions.

Developing or acquiring a business or technology, and then integrating it with our other operations, is 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 is not successful, we may experience materially 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 September 30, 2013 and September 30, 2015, our closing stock price ranged from $12.88 to $29.82. On October 22, 2015, the closing price of our common stock was $11.37. Our stock price could decline or fluctuate significantly in response to many factors, including the other risks discussed in this report and the following:

- actual or anticipated variations in quarterly and annual results of operations;
- announcements of significant acquisitions, dispositions, charges, changes in or loss of material contracts and relationships, or other business developments by us, our partners, or our competitors;
- conditions or trends in the search and content services, tax preparation, or e-commerce markets;
- changes in general conditions in the U.S. and global economies or financial markets;
- announcements of technological innovations or new services by us or our competitors;
- changes in financial estimates or recommendations by securities analysts;
- disclosures of any accounting issues, such as restatements or material weaknesses in internal control over financial reporting;
- equity issuances resulting in the dilution of stockholders;
- the adoption of new regulations or accounting standards;
- adverse publicity (whether justified or not) with respect to our business; and
- announcements or publicity relating to litigation or governmental enforcement actions.

In addition, the market for technology company securities has experienced extreme price and volume fluctuations, and our stock has been particularly susceptible to such fluctuations. Often, class action litigation has been instituted against companies after periods of volatility in the price of such companies’ stock. We have been defendants in such class action litigation in prior periods and could be subject to future litigation, potentially resulting 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 in our relationships with Google, Yahoo!, Bing, or future significant Search Customers, such as alterations to their policies, policy enforcement, revenue share agreements, or qualitative scoring of traffic we direct to their advertiser networks, any of which may result in a potential or total loss of content we may use or provide to our distribution partners;
- the loss, termination, or reduction in scope of key search distribution relationships as a result of, for example, distribution partners licensing content directly from our Search Customers or other content providers, or any

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suspension by our Search Customers (particularly Google) of our right to use or distribute content on the web properties of our distribution partners;
- the inability of any of our businesses to meet our expectations;
- the extreme seasonality of our TaxACT business and the resulting large quarterly fluctuations in our revenues;
- the success or failure of our strategic initiatives and our ability to implement those initiatives in a cost effective manner;
- the mix of search services revenue generated by our owned and operated web properties versus our distribution partners' web properties;
- the mix of revenues generated by existing businesses, or other businesses we develop or acquire;
- our ability and our distribution partners' abilities 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, evaluating, 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 in our Search and Content business, lower acceptance rates on premium products and services offered by our Tax Preparation business, and reduced sales for our E-Commerce business;
- new court rulings, or the adoption of new laws, rules, or regulations, that adversely affect our ability to acquire content and distribute our search services, that adversely affect our tax preparation products and services, or that otherwise increase our potential liability or compliance costs;
- impairment in the value of long-lived assets or the value of acquired assets, including goodwill, core technology, and acquired contracts and relationships; and
- the effect of changes in accounting principles or standards or in our accounting treatment of revenues or expenses.

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

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

The conditional conversion feature of the Notes, if triggered, and the requirement to repurchase the Notes upon a fundamental change may adversely affect our financial condition and financial results. In the event the conditional conversion feature of the Notes is triggered, holders of the Notes will be entitled, at their option, to convert the Notes at any time during specified periods. 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 all or part of their Notes for cash 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. 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 hinder our ability to take advantage of certain future opportunities, such as engaging in future debt or equity financing activities, which may in turn reduce or impair our ability to acquire new businesses or invest in our existing businesses.

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

In connection with our acquisition of Monoprice, Monoprice incurred debt under a November 2013 credit facility, of which $30.0 million remained outstanding as of September 30, 2015. In addition, as part of our acquisition of TaxACT, TaxACT incurred debt, which was refinanced with a new credit facility on August 30, 2013. As of September 30, 2015, TaxACT had available $80.0 million under the credit facility, with no amounts outstanding. The Monoprice and TaxACT credit facilities 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.

To finance our pending HD Vest Acquisition, we expect to enter into credit facilities for a $400.0 million first lien term loan and a $25.0 million revolving credit line. In addition, we or our subsidiaries may incur additional debt in the future to finance additional acquisitions or for other purposes. The HD Vest debt will, and any additional debt may, result in risks similar to those discussed above related to the Monoprice and TaxACT debts or in other risks specific to the credit agreements entered into for those debts.

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

Although we believe that existing cash and cash equivalents, short-term investments, and cash generated from operations will be sufficient to meet our anticipated cash needs for servicing debt, working capital, and capital expenditures for at least the next 12 months, the underlying levels of revenues and expenses that we project may not prove to be accurate. In March 2013, we sold $201.25 million aggregate principal amount of 4.25% Convertible

Senior Notes due 2019. In addition, as of

September 30, 2015, Monoprice had $30.0 million outstanding under the credit facility entered into in November 2013. 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 them. We may seek additional funding through public or private financings, through sales of equity, or through other arrangements. Our ability to raise funds may be adversely affected by a number of factors, including factors beyond our control, such as economic conditions in the markets in which we operate and increased uncertainty in the financial, capital, and credit markets. Adequate funds may not be available when needed or may not be available on favorable terms. If we raise additional funds by issuing equity securities, dilution to existing stockholders may result. If funding is insufficient at any time in the future, we may be unable, or delayed in our ability, to develop or enhance our products or services, take advantage of business opportunities, or respond to competitive pressures, any of which could materially 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. In addition, the ownership or scope of such rights may be altered by changes in the legal landscape, such as through developments in U.S. or international intellectual property laws or regulations or through court, agency, or regulatory board decisions. These parties have in the past made 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, or require removal or redesigning of our products or services, payment of damages for infringement, or entry 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. Our business could suffer if a successful claim of infringement were 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.

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, thereby 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.

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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 copy aspects of our services, use similar marks or domain names, or obtain and use information, marks, or technology that we regard as proprietary. 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, agency, regulatory board decisions. 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, and 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 regulatory board or court interpretations 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 class action litigation, which could have a materially 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 super majority approval by stockholders for certain business combinations;
- the ability of our board of directors to authorize the issuance of shares of undesignated preferred stock without a vote by stockholders;
- the ability of our board of directors to amend or repeal our bylaws;
- limitations on the removal of directors;
- limitations on stockholders' ability to call special stockholder meetings;
- advance notice requirements for nominating candidates for election to our board of directors or for proposing matters that can be acted upon by stockholders at stockholder meetings; and
- certain restrictions in our charter on transfers of our common stock designed to preserve our federal net operating loss carryforwards ("NOLs").

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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, 2014, we had NOLs of $570.4 million that will expire primarily between 2020 and 2024. If we were to have a change of ownership within the meaning of Section 382 of the Internal Revenue Code (defined as a cumulative change of 50 percentage points or more in the ownership positions of certain stockholders owning five percent or more of a company's common stock over a three-year rolling period), then under certain conditions, the amount of NOLs we could use in any one year could be limited to an amount equal to our market capitalization, net of substantial non-business assets, at the time of the ownership change multiplied by the federal long-term tax exempt rate. Our certificate of incorporation imposes certain limited transfer restrictions on our common stock that we expect will assist us in preventing a change of ownership and preserving our NOLs, but there can be no assurance that these restrictions will be sufficient. In addition, other restrictions on our ability to use the NOLs may be triggered by a merger or acquisition, depending on the structure of such a transaction. It is our intention to limit the potential impact of these restrictions, but there can be no guarantee that such efforts will be successful. If we are unable to use our NOLs before they expire, or if the use of this tax benefit is severely limited or eliminated, there could be a material reduction in the amount of after-tax income and cash flow from operations, and it could have an effect on our ability to engage in certain transactions.

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

Our future success depends on our ability to identify, attract, hire, retain, and motivate highly skilled management, technical, sales and marketing, and corporate development personnel, including personnel with experience and expertise in the financial services and technology industry to support our new strategic focus on that industry. 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 disrupt operations, which may materially and adversely affect our business and financial results or delay achievement of our business objectives. In addition, if we lose the services of one or more key employees and are unable to recruit and retain a suitable successor, we may not be able to successfully and timely manage our business or achieve our business objectives. For example, the success of our Search and Content business is partially dependent on key personnel who have long-term relationships with our Search Customers and distribution partners. There can be no assurance that any retention program we initiate will be successful at retaining employees, including key employees.

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

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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 found 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. For example, in connection with our strategic transformation (as described in the "Strategic Transformation" section in Part I Item 2 of this quarterly report), we have effected and will in the future effect significant reductions-in-force. Such measures may place significant strains on our management and employees and otherwise have a material adverse effect on our business. 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 materially negative impact on our business and financial results.

RISKS RELATED TO OUR SEARCH AND CONTENT BUSINESS

The current challenges in the Search and Content Business may continue.

Our Search and Content business has faced significant challenges, beginning in early 2014 and continuing to the present. These challenges have resulted in significant declines in the financial results for this business, and if current trends cannot be reversed, the ability of this business to operate profitably will be significantly challenged in future periods. The continuing challenges include, among other things, limitations in our ability to monetize our mobile advertising offering as a result of changes in our agreement with Google, losses of distribution partners, and suspended or limited access to our services for certain distribution partners due to regular monitoring of policy and compliance requirements. Although we have addressed, to varying degrees, some of these challenges, we have been unable to address all of them, and additional issues have emerged, leading to continued and significant pressure on our Search and Content business. In addition, we were unable to accurately predict the long-term impact of some these challenges in 2014, and we may be unable to accurately predict the long-term impact going forward. If we are unable to successfully address our current challenges, or if new issues emerge, we are likely to see a continued material adverse effect on our Search and Content business and its financial results. These challenges may be exacerbated by our announcement that we intend to divest the Search and Content business.

Our efforts to transition the Search and Content business may not be successful.

As a result of the challenges discussed above, we have invested in initiatives to transition the Search and Content business to methods of monetization that can be more viable long term. These initiatives are targeted at business opportunities that we believe are promising, but the initiatives are still in their early stages, and there can be no assurance that we will identify viable alternate monetization methods, that we will successfully execute the changes necessary for this transition, that this transition will occur on a time line sufficient to offset declines in the business, that we will identify and attract partners needed for this transition, or that our Search Customers will permit the changes necessary for this transition. Our transition efforts may be set back by our announcement that we intend to divest our Search and Content business. If the current challenges continue and this transition is not successful, our Search and Content business will likely experience continued declines in its financial results and the ability of this business to operate profitably will be significantly challenged in future periods.

Much of our current owned and operated business, and that of some of our distribution partners, significantly relies on methods of driving traffic that may not be permitted in future periods.

Recently, a larger percentage of the search business has been driven by search engine marketing efforts that drive traffic to some of our owned and operated web properties and to the web properties of some of our distribution partners. Third parties may not permit those search engine marketing efforts in the future. For example, Google has in the past limited such search engine marketing efforts by some of our competitors and has the ability, under our agreement with Google, to limit our efforts and/or the efforts of our distribution partners. If we are unable to ensure that our search engine marketing efforts meet Google's requirements, or if Google decides to otherwise limit such efforts with respect to our Search and Content business, we will likely see significant declines in the financial results of the Search and Content 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

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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 or termination of our relationship, or a payment dispute with, Google or any other significant Search Customer would materially harm our business and financial results.

If any existing or future significant Search Customer, such as Google, Yahoo!, or Bing, were to substantially reduce our revenue share rates or substantially reduce, eliminate, or increase the cost of the content it provides to us or to our distribution partners, or if we were to terminate or substantially reduce the extent of our relationship with any existing or future significant Search Customer, our business results could materially suffer if we are unable to (a) promptly establish, transition to, and maintain new Search Customer relationships and adequately monetize the affected business through such relationships, or (b) promptly transition the affected business to our remaining Search Customers and adequately monetize such business through them. During the third quarter of 2015, Google accounted for approximately 34% of our total Company revenues. While Yahoo! remained an important partner, it was a much less significant source of revenue than Google during that period. If our Google relationship ended or were impaired, we believe that we could replace a portion of the lost revenue with revenue from other potential content providers. However, Google's overwhelming market dominance in the search industry means that it is unlikely that any other potential content provider would enable our Search and Content business to generate revenue that would completely offset the decline of revenue resulting from a loss or impairment of our relationship with Google. In addition, Yahoo! receives some of its algorithmic search results and paid listings from Microsoft's Bing search service. If Yahoo! cannot maintain an agreement with Bing on favorable terms, or if Bing were unable to adequately perform its obligations to Yahoo!, then Yahoo!'s ability to provide us with algorithmic search results and paid listings may be impaired. In addition, if a Search Customer is unwilling to pay us amounts that it owes us, or if it disputes amounts it owes us or has previously paid to us for any reason (including for the reasons described in the risk factors below), our business and financial results could materially suffer.

The success of our search business depends on our ability to negotiate extensions of our Search Customer agreements on favorable terms. We recently renewed our agreement with Google, which now runs to March 31, 2017. As part of ongoing negotiations to enter into a new agreement, we entered into a Mutual Termination Agreement with Yahoo! pursuant to which our original agreement with Yahoo! will terminate effective December 31, 2015, upon expiration of the current term. If we cannot negotiate a new agreement with Yahoo! or extensions of our other 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 may materially suffer.

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

Our search business, and that of most of our distribution partners, is primarily based on searches conducted from browsers and other applications on desktop and laptop computers. As mobile phones, tablets, and other mobile devices increase in popularity, functionality, and usage, mobile searches will constitute an increasing percentage of the search market. Because our search business has been primarily focused on the desktop and laptop markets, we may have less experience and capability in offering and monetizing mobile search services than our competitors. In addition, because we rely on our Search Customers to provide us with search results and advertisements, our ability to innovate for mobile search and to expand in that market is dependent on the cooperation of, and collaboration with, those Search Customers. Under the terms of our current agreement with Google, which took effect on April 1, 2014 and was subsequently amended, our revenue share rate with respect to Google's mobile search advertisements is significantly lower than the revenue share rate for desktop advertisements. As a result, we have increased our usage of our other current advertising solutions for mobile and/or found additional mobile advertising solutions and partners. Nonetheless, 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.

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

If we or our search distribution partners fail to meet the policies promulgated by Google, Yahoo!, or Bing 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, Yahoo!, and Bing give them the ability to suspend the use and the distribution of their content for non-compliance with their requirements and policies and, in the case of breaches of certain other provisions of their agreements, to terminate their agreements with us immediately, regardless of whether such breaches could be cured. The terms of the Search Customer agreements with Google, Yahoo!, and Bing and related requirements and policies are also subject to differing interpretations by the parties, and we have experienced situations (including recently) in which our interpretation substantially differs from that of our Search Customers. In addition, Google, Yahoo!, and Bing have broad discretion, at any time, to unilaterally revise their existing requirements and policies, to implement new requirements and policies, or to change their interpretation or enforcement of existing requirements and policies. Such revisions, implementations, or changes may prohibit or severely restrict certain business methods used by our search business or those of our distribution partners, and the resulting impact could have a material adverse effect on our business and financial results.

On a number of occasions (including recently), certain of our Search Customers have suspended their content provided to our websites and the websites of our distribution partners, often without notice, when they believe that we or our distribution partners are not in compliance with their policies or are in breach of the terms of their agreements. During such suspensions, which could occur again in the future, we do 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 materially harm our business and financial results.

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

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

Further, certain third parties have introduced, and can be expected to continue to introduce, new or updated technologies, applications, and policies that may interfere with the ability of users to access our search services or those of our search distribution partners. 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 with the maintenance of home page and other settings previously selected by users. In addition, our Search Customers can require us to make technology changes to our search services that may negatively impact our search business or the businesses of our distribution partners. For example, a required technology change in the first quarter of 2014 resulted in a significant negative impact on the return on our marketing expenditures. Similar changes may be required again in the future.

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

A substantial portion of our search services revenue is dependent on our relationships with a small number of distribution partners, the loss of which could have a material adverse effect on our business and financial results.
We rely on our relationships with search distribution partners, including Internet service providers, web portals, and software application providers, for distribution of our search services. Approximately 38% of our total revenues for the third quarter of 2015 came from searches conducted by end users on the web properties of our search distribution partners, and approximately 19% came from searches conducted by end users on the web properties of our top five distribution partners. Our

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agreements with many of our distribution partners will come up for renewal in 2015, and some of our distributors have the right to immediately terminate their agreements in the event of certain breaches or events. There can be no assurance that these relationships will continue or will be renewed on terms that are as favorable as current terms. In addition, if these larger partners violate our policies or requirements, or those of our Search Customers, we, or our Search Customers, may suspend or limit their access to our search services. We lost some of our larger distribution partners in 2014 and early 2015, either due to competition from other content providers, including our Search Customers, or due to the inability of those partners to successfully adapt to changes in the marketplace or in Search Customer policies. If we are unable to maintain relationships with our distribution partners on favorable terms, or if our distribution partners cannot or otherwise do not continue to use our search services, our business and financial results could be materially adversely affected. Our ability to maintain relationships with our distribution partners may be negatively impacted by our announcement that we intend to divest our Search and Content business.

A significant percentage of our Search and Content business's revenue is generated by our distribution partner network. Given the nature of our relationships with our distribution partners, we have limited insight into the methods that our partners use to drive search traffic, which may result in unanticipated volatility in our financial results.

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

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

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

Poor quality traffic may be a result of invalid click activity. Such invalid click activity occurs, for example, when a person or automated click generation program clicks on a commercial search result to generate fees for the web property displaying the commercial search result rather than to view the webpage underlying the commercial search result. Some of this invalid click activity is referred to as "click fraud." When such invalid click activity is detected, the Search Customer may not charge the advertiser or may refund the fee paid by the advertiser for such invalid clicks.

If the invalid click activity originated from one of our distribution partners’ web properties or our owned and operated properties, such non-charge or refund of the fees paid by the advertisers in turn reduces the amount of fees the Search Customer pays us. Initiatives we undertake to improve the quality of the traffic that we send to our Search Customers may not be successful and, even if successful, may result in loss of revenue in a given reporting period.

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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. The 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 were 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. Any liability that we incur as a result of content we receive from third parties could materially harm our financial results.

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

The growth and development of the Internet has led to new laws and regulations, as well as the application of existing laws to the Internet, in both the U.S. and foreign jurisdictions. Application of these laws can be unclear. For example, it is unclear how many existing laws regulating or requiring licenses for certain businesses (such as gambling, online auctions, distribution of pharmaceuticals, alcohol, tobacco, firearms, insurance, securities brokerage, or legal services) apply to search services, online advertising, and our business. The costs of complying or failure to comply with these laws and regulations could limit our ability to operate in our market (including limiting our ability to distribute our services; conduct targeted advertising; collect, use, or transfer user information; or comply with new data security requirements), expose us to compliance costs and substantial liability, and result in costly and time-consuming litigation. We cannot 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 materially and adversely 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 governmental bodies and regulatory authorities in the United States or foreign countries might attempt to regulate Internet transmissions, through data protection laws amongst others, or institute proceedings for violations of their laws. We might unintentionally violate such laws, such laws may be modified, and new laws may be enacted in the future. Any such developments (or developments stemming from enactment or modification of other laws) could increase the costs of regulatory compliance for us or force us to change our business practices.

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

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

RISKS RELATED TO OUR TAX PREPARATION BUSINESS

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

Our TaxACT business operates in a very competitive marketplace. There are many competing software products and online services, including two competitors who have a significant percentage of the software and online service market: Intuit's 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 may materially 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 materially 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 claims and fees and payouts related to the warranty on our software and service.

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

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

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

Changes in the way that the state and federal governments structure their taxation regimes may affect our results. The introduction of a simplified or flattened taxation structure may make our services less necessary or attractive to individual filers. We also face risk from the possibility of increased complexity in taxation structures, which may encourage some of our customers to seek professional tax advice instead of using our software or services. In the event that such changes to tax structures cause us to lose market share, our results may materially 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, particularly during tax season. 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 may result from any such problems, which may be substantial, a loss of confidence in our controls may materially 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 materially 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 sellers are much larger and more 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 materially and 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 we do 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 materially suffer.

If we fail to accurately forecast customer demand, our inventory may either exceed demand or be insufficient to meet demand, which could materially 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 materially 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 products and accessories have short life cycles and/or must be updated frequently. Our future success depends on our ability to develop, introduce, and deliver on a timely basis, and in sufficient quantity, new products and enhancements to current products. The success of any new product or any update to a current product will depend on several factors, including our ability to:

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

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If we are not successful in achieving on the foregoing 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 may materially 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 materially and 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. In late 2014 and early 2015, our ability to maintain adequate inventory was impacted by slowdowns in offloading container ships resulting from labor disputes. These slowdowns may continue, with the result that the impact on our ability to maintain inventory may continue. 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 materially 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 materially and 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 materially and adversely 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 materially and 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

See “Note 8: Stockholders’ Equity” of the Notes to Unaudited Condensed Consolidated Financial Statements in Part I Item 1 of this report for additional information regarding the Company’s stock repurchase program. Share repurchase activity during the third quarter of 2015 was as follows (in thousands, except per share data):

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet be Purchased under the Plans or Programs
July 1-31, 2015	—	$—	—	$30,946
August 1-31, 2015	109	$14.15	109	$29,404
September 1-30, 2015	—	$—	—	$29,404
Total	109	$14.15	109	

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Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

See exhibits listed under the Index to Exhibits below.

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SIGNATURES

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

BLUCORA, INC.

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

Date: October 29, 2015

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INDEX TO EXHIBITS

Exhibit Number	Exhibit Description	Form	Date of First Filing	Exhibit Number	Filed Herewith
2.1	Stock Purchase Agreement by and among HDV Holdings LLC, Blucora, Inc., Project Baseball Sub, Inc., and HDV Holdings, Inc. dated October 14, 2015	8-K	October 15, 2015	10.1	
10.1*	Blucora, Inc. 2015 Incentive Plan				X
10.2*	Amended and Restated Employment Agreement between Blucora, Inc., Monoprice, Inc. and Bernard Luthi	8-K	September 11, 2015	10.1	
10.3*	Amended and Restated Employment Agreement between Blucora, Inc., Monoprice, Inc. and William Ruckelshaus				X
10.4**	Microsoft Advertising Publisher Business Framework Agreement dated August 1, 2014				X
10.5	Amendment No. 1 dated July 29, 2015 to the Microsoft Advertising Publisher Business Framework Agreement				X
10.6**	Paid Search Services Schedule to the Framework Agreement dated August 1, 2014				X
10.7**	Amendment No. 1 to the Paid Search Services Schedule to the Framework Agreement dated August 1, 2014				X
10.8	Bing Search API Services Schedule to the Framework Agreement dated June 1, 2015				X
10.9	Amendment No. 1 to the Bing Search API Services Schedule to the Framework Agreement dated June 1, 2015				X
10.10	Termination Agreement between Blucora, Inc., InfoSpace LLC, Yahoo! Inc. and Yahoo! EMEA Limited	8-K	October 1, 2015	10.1	
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				X
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				X
32.1	Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				X
32.2	Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				X
101	The following financial statements from the Company's 10-Q for the fiscal quarter ended September 30, 2015, formatted in XBRL: (i) Unaudited Condensed Consolidated Balance Sheets, (ii) Unaudited Condensed Consolidated				X

Statements of Operations, (iii) Unaudited Condensed Consolidated Statements of Cash Flows, and (iv) Notes to Unaudited Condensed Consolidated Financial Statements

*	Indicates a management contract or compensatory plan or arrangement.
**	Portions of this exhibit have been omitted pending a determination by the Securities and Exchange Commission as to whether these portions should be granted confidential treatment.