BLUCORA, INC.
Form 10-Q
August 07, 2014
Table of Contents

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 June 30, 2014
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	91-1718107
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
10900 NE 8th Street, Suite 800 Bellevue, Washington	98004
(Address of principal executive offices)	(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. 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 August 1, 2014
Common Stock, Par Value $0.0001	41,124,267

Table of Contents

BLUCORA, INC.
FORM 10-Q
TABLE OF CONTENTS

PART I—FINANCIAL INFORMATION

Item 1.	Financial Statements	3
	Unaudited Condensed Consolidated Balance Sheets as of June 30, 2014 and December 31, 2013	3
	Unaudited Condensed Consolidated Statements of Comprehensive Income for the Three and Six Months ended June 30, 2014 and 2013	4
	Unaudited Condensed Consolidated Statements of Cash Flows for the Six Months ended June 30, 2014 and 2013	5
	Notes to Unaudited Condensed Consolidated Financial Statements	6
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	18
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	34
Item 4.	Controls and Procedures	35

PART II—OTHER INFORMATION

Item 1.	Legal Proceedings	36
Item 1A.	Risk Factors	36
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	53
Item 3.	Defaults Upon Senior Securities	54
Item 4.	Mine Safety Disclosures	54
Item 5.	Other Information	54
Item 6.	Exhibits	54
Signatures		55

Table of Contents

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

	June 30, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$69,764	$130,225
Available-for-sale investments	208,856	203,480
Accounts receivable, net of allowance of $57 and $62	35,680	48,081
Other receivables	3,915	8,292
Inventories	30,564	28,826
Prepaid expenses and other current assets, net	8,656	9,774
Total current assets	357,435	428,678
Property and equipment, net	16,330	16,108
Goodwill	364,054	348,957
Other intangible assets, net	188,323	178,064
Other long-term assets	5,575	6,223
Total assets	$931,717	$978,030
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$43,257	$61,268
Accrued expenses and other current liabilities	23,714	31,109
Deferred revenue	5,880	7,510
Short-term portion of long-term debt, net	7,912	7,903
Convertible senior notes, net	—	181,583
Total current liabilities	80,763	289,373
Long-term liabilities:		
Long-term debt, net	57,242	113,193
Convertible senior notes, net	183,347	—
Deferred tax liability, net	38,443	56,861
Deferred revenue	2,889	1,814
Other long-term liabilities	2,669	2,719
Total long-term liabilities	284,590	174,587
Total liabilities	365,353	463,960
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Common stock, par value, $0.0001 - authorized, 900,000 shares; issued and outstanding, 41,039 and 42,083 shares	4	4
Additional paid-in capital	1,481,523	1,466,043
Accumulated deficit	(917,253)	(951,977)
Accumulated other comprehensive income	2,090	—
Total stockholders' equity	566,364	514,070
Total liabilities and stockholders' equity	$931,717	$978,030

See accompanying notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents

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

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Revenues:				
Services revenue	$106,270	$117,181	$285,314	$282,519
Product revenue, net	35,299	—	72,438	—
Total revenues	141,569	117,181	357,752	282,519
Operating expenses:				
Cost of revenues:				
Services cost of revenue	56,233	69,352	127,526	146,339
Product cost of revenue	23,137	—	48,166	—
Total cost of revenues	79,370	69,352	175,692	146,339
Engineering and technology	4,817	2,508	8,952	5,046
Sales and marketing	22,287	14,695	78,123	53,179
General and administrative	10,425	6,557	19,057	12,941
Depreciation	1,135	524	2,193	1,041
Amortization of intangible assets	5,761	3,168	11,345	6,337
Total operating expenses	123,795	96,804	295,362	224,883
Operating income	17,774	20,377	62,390	57,636
Other loss, net	(3,724)	(6,304)	(7,793)	(7,309)
Income before income taxes	14,050	14,073	54,597	50,327
Income tax expense	(5,313)	(5,667)	(19,873)	(18,313)
Net income	$8,737	$8,406	$34,724	$32,014
Net income per share:				
Basic	$0.21	$0.20	$0.83	$0.78
Diluted	$0.20	$0.20	$0.79	$0.75
Weighted average shares outstanding:				
Basic	41,570	41,050	41,866	40,981
Diluted	43,084	42,724	43,803	42,657
Other comprehensive income:				
Net income	$8,737	$8,406	$34,724	$32,014
Unrealized gain (loss) on available-for-sale investments, net of tax	2,076	(8)	2,090	36
Unrealized gain on derivative instrument, net of tax	—	169	—	209
Reclassification adjustment for realized gain on available-for-sale investments, net of tax, included in net income	—	(1)	—	(1)
Other comprehensive income	2,076	160	2,090	244
Comprehensive income	$10,813	$8,566	$36,814	$32,258

See accompanying notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents

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

	Six months ended June 30,	
	2014	2013
Operating Activities:		
Net income	$34,724	$32,014
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation	6,366	5,238
Depreciation and amortization of intangible assets	17,920	12,197
Excess tax benefits from stock-based award activity	(34,369)	(27,036)
Deferred income taxes	(18,172)	(10,632)
Amortization of premium on investments, net	2,221	1,311
Amortization of debt issuance costs	565	583
Accretion of debt discounts	1,822	1,110
Loss on derivative instrument	—	1,975
Other	57	237
Cash provided (used) by changes in operating assets and liabilities:		
Accounts receivable	12,347	(591)
Other receivables	4,362	(180)
Inventories	(1,738)	—
Prepaid expenses and other current assets	874	4,383
Other long-term assets	48	(94)
Accounts payable	(18,011)	(2,641)
Deferred revenue	(555)	1,088
Accrued expenses and other current and long-term liabilities	26,789	30,214
Net cash provided by operating activities	35,250	49,176
Investing Activities:		
Business acquisition, net of cash acquired	(44,927)	—
Purchases of property and equipment	(2,859)	(2,047)
Change in restricted cash	—	287
Equity investment in privately-held company	—	(4,000)
Proceeds from sales of investments	21,546	8,710
Proceeds from maturities of investments	121,496	53,398
Purchases of investments	(144,049)	(167,434)
Net cash used by investing activities	(48,793)	(111,086)
Financing Activities:		
Proceeds from issuance of convertible notes, net of debt issuance costs of $6,432	—	194,818
Proceeds from credit facilities	4,000	—
Repayment of credit facilities	(60,000)	(10,000)
Stock repurchases	(25,785)	(1,051)
Excess tax benefits from stock-based award activity	34,369	27,036
Proceeds from stock option exercises	1,746	1,244
Proceeds from issuance of stock through employee stock purchase plan	665	461
Tax payments from shares withheld upon vesting of restricted stock units	(1,913)	(1,442)
Net cash provided (used) by financing activities	(46,918)	211,066
Net increase (decrease) in cash and cash equivalents	(60,461)	149,156
Cash and cash equivalents, beginning of period	130,225	68,278
Cash and cash equivalents, end of period	$69,764	$217,434

Supplemental disclosure of non-cash investing activities:		
Purchases of property and equipment through leasehold incentives	$120	$1,006
Cash paid for:		
Income taxes	$2,012	$1,020
Interest	$5,766	$1,444

See accompanying notes to Unaudited Condensed Consolidated Financial Statements.

BLUCORA, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Note 1: The Company and Basis of Presentation
Description of the business: Blucora, Inc. (the "Company" or "Blucora") operates three primary businesses: an internet search and content business, an online tax preparation business, and an e-commerce business. The Search and Content business, InfoSpace, provides search, content, and other services to users of its owned and operated and distribution partners properties. The Tax Preparation business consists of the operations of TaxACT, Inc. ("TaxACT") and provides online tax preparation service for individuals, tax preparation software for individuals and professional tax preparers, and ancillary services. The E-Commerce business consists of the operations of Monoprice, Inc. ("Monoprice"), which the Company acquired on August 22, 2013, and provides self-branded electronics and accessories to both consumers and businesses primarily through its website, www.monoprice.com.
On May 30, 2014, InfoSpace acquired the assets of HowStuffWorks ("HSW"), which constituted a business, pursuant to the terms of the Asset Purchase Agreement dated April 18, 2014. HSW provides online content through various websites, including www.HowStuffWorks.com. HSW generates revenue primarily through advertisements appearing on its websites.
Segments: The Company has three reportable segments: Search and Content (formerly known as Search), Tax Preparation, and E-Commerce. The Search and Content segment is the InfoSpace business, which now includes HSW, the Tax Preparation segment is the TaxACT business, and the E-Commerce segment is the Monoprice business. Unless the context indicates otherwise, the Company uses the term "Search and Content" to represent search and content services, the term "Tax Preparation" to represent services and software sold through the TaxACT business, and the term "E-Commerce" to represent products sold through the Monoprice business (see "Note 9: Segment Information").
Principles of consolidation: The consolidated financial statements include the accounts of the Company and its subsidiaries. Intercompany accounts and transactions have been eliminated.
Reclassifications: Certain prior period amounts have been reclassified to conform to the current period presentation.
Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses, and disclosure of contingencies. Estimates include those used for impairment of goodwill and other intangible assets, useful lives of other intangible assets, acquisition accounting, valuation of investments, valuation of the Warrant (see "Note 8: Stockholders' Equity") and interest rate swap derivatives, revenue recognition, the estimated allowance for sales returns and doubtful accounts, the estimated allowance for obsolete, slow moving, and nonsalable inventory, internally developed software, accrued contingencies, stock option valuation, and valuation allowance for deferred tax assets. Actual amounts may differ from estimates.
Seasonality: Blucora's Tax Preparation segment is highly seasonal, with the significant majority of its annual revenue earned in the first four months of the Company's fiscal year. During the third and fourth quarters, the Tax Preparation segment typically reports losses because revenue from the segment is minimal while core operating expenses continue at relatively consistent levels. Revenue from the E-Commerce segment also is seasonal, with revenues historically being the lowest in the second quarter, a period that does not include consumer back-to-school or holiday-related spending.

Table of Contents

Note 2: Summary of Significant Accounting Policies

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

Short-term investments: The Company principally invests its available cash in fixed income debt and marketable equity securities. Fixed income debt securities include investment-grade income securities, AAA-rated money market funds, and insured time deposits with commercial banks. Equity securities include common stock in a publicly traded company. Such investments are included in “Cash and cash equivalents” and “Available-for-sale investments” on the consolidated balance sheets and reported at fair value with unrealized gains and losses included in “Accumulated other comprehensive income” on the consolidated balance sheets. Amounts reclassified out of comprehensive income into net income are determined on the basis of specific identification.

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

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

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

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

The change in the fair value of the Warrant resulted in losses of $2.3 million and $2.0 million for the three and six months ended June 30, 2013, respectively.

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

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

Table of Contents

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

Supplier concentration: A material part of Monoprice's business is dependent on two vendors. These unrelated vendors accounted for 19% and 18% of Monoprice's inventory purchases during the three and six months ended June 30, 2014, respectively, and 22% of Monoprice's related accounts payable at June 30, 2014.

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

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

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

Note 3: Business Combinations

HSW: On May 30, 2014, InfoSpace acquired HSW, a provider of online content (see "Note 1: The Company and Basis of Presentation"), for $44.9 million in cash, which was funded from available cash. The acquisition of HSW is strategic to InfoSpace and intended to expand its operations. HSW is included in the Search and Content segment. The identifiable net assets acquired amounted to approximately $4.5 million, consisting primarily of marketable equity securities, and intangible assets acquired amounted to approximately $25.4 million, consisting of $18.2 million in content, $1.3 million in proprietary technology, and $5.9 million in trade names. The Company estimates the economic lives of the content and proprietary technology to be 10 years and 4 years, respectively, and the trade names are estimated to have indefinite lives. Goodwill amounted to $15.1 million and is expected to be deductible for income tax purposes. Goodwill consists largely of the ability to attract new customers through utilization of current content and to develop new content post-acquisition, which do not qualify for separate recognition. Pro forma results of operations have not been presented because the effects of this acquisition were not material to the Company's consolidated results of operations.

Balance Financial: On October 4, 2013, TaxACT acquired all of the equity of Balance Financial, Inc. ("Balance Financial"), a provider of web and mobile-based financial management software, for $4.9 million in cash which includes a $0.7 million escrow amount recorded in "Accrued expenses and other current liabilities" for indemnifications

related to general representations and warranties. The escrow period expires on April 4, 2015, at which time the amount, net of any indemnifiable losses, will be released. The acquisition of the Balance Financial business is strategic to TaxACT and was funded from the revolving credit loan under the TaxACT 2013 credit facility. See "Note 6: Debt" for further discussion of the TaxACT 2013 credit facility. Balance Financial is included in the Tax Preparation segment. The identifiable net assets acquired amounted to $1.0 million, consisting primarily of deferred tax assets, and intangible assets acquired amounted to $0.8 million, consisting primarily of internally-developed software and customer relationships both of which have finite lives. Goodwill amounted to

Table of Contents

$3.1 million. Pro forma results of operations have not been presented because the effects of this acquisition were not material to the Company's consolidated results of operations.

Monoprice: On August 22, 2013, the Company acquired all of the outstanding stock of Monoprice, an online provider of self-branded electronics and accessories for both consumers and businesses (see "Note 1: The Company and Basis of Presentation"). The Company paid $182.9 million, which was funded from available cash, after a $0.4 million working capital adjustment in the fourth quarter of 2013. The acquisition was intended to diversify the Company's business model and expand its operations.

Valuations were as follows (in thousands):

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

The Company incurred acquisition costs of $0.7 million in 2013, which were recognized in "General and administrative expense." The Company did not assume any equity awards or plans from Monoprice. Following the completion of the acquisition, the Company issued 27,152 options and 126,259 restricted stock units ("RSUs"), which are at levels consistent with other awards to Blucora subsidiary employees, and 243,750 performance-based RSUs to Monoprice's employees.

The Company's estimates of the economic lives of the acquired assets are two years for the business-to-consumer customer relationships, seven years for the business-to-business customer relationships, approximately six years for the personal property assets, and the trade name is estimated to have an indefinite life. Goodwill consists largely of the ability to attract new customers and develop new technologies post-acquisition, which do not qualify for separate recognition. The Company does not expect that any of this goodwill will be deductible for income tax purposes.

The gross contractual amount of trade accounts receivable acquired was $3.2 million, all of which the Company has collected. The Company recorded deferred revenue at a fair value of $1.3 million as of the acquisition date. Prior to the acquisition, Monoprice had recorded deferred revenue at $2.0 million.

Pro Forma Financial Information (unaudited)

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

Table of Contents

	Three months ended June 30, 2013	Six months ended June 30, 2013
Revenue	$150,674	$350,708
Net income	$9,114	$32,788

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, 2013	$44,815	$188,541	$115,601	$348,957
Addition	15,097	—	—	15,097
Goodwill as of June 30, 2014	$59,912	$188,541	$115,601	$364,054

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

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

	June 30, 2014			December 31, 2013		
	Gross carrying amount	Accumulated amortization	Net	Gross carrying amount	Accumulated amortization	Net
Definite-lived intangible assets:						
Customer relationships	$132,500	$(38,906)	$93,594	$132,500	$(27,740)	$104,760
Technology	44,805	(31,744)	13,061	43,535	(27,951)	15,584
Content	18,200	(152)	18,048	—	—	—
Other	6,705	(6,667)	38	6,705	(6,667)	38
Total definite-lived intangible assets	202,210	(77,469)	124,741	182,740	(62,358)	120,382
Indefinite-lived intangible assets:						
Trade names	63,399	—	63,399	57,499	—	57,499
Other	183	—	183	183	—	183
Total indefinite-lived intangible assets	63,582	—	63,582	57,682	—	57,682
Total	$265,792	$(77,469)	$188,323	$240,422	$(62,358)	$178,064

Amortization expense was as follows (in thousands):

Table of Contents

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Statement of comprehensive income line item:				
Services cost of revenue	$1,881	$1,927	$3,766	$3,867
Amortization of intangible assets	5,761	3,168	11,345	6,337
Total	$7,642	$5,095	$15,111	$10,204

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

	2014	2015	2016	2017	2018	Thereafter	Total
Services cost of revenue	$3,747	$7,450	$621	$—	$—	$—	$11,818
Amortization of intangible assets	12,236	21,880	17,206	17,155	16,970	27,476	112,923
Total	$15,983	$29,330	$17,827	$17,155	$16,970	$27,476	$124,741

The weighted average amortization periods for definite-lived intangible assets are as follows: 63 months for customer relationships, 22 months for technology, 119 months for content, and 67 months for total definite-lived intangible assets.

Note 5: Fair Value Measurements

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

Table of Contents

	June 30, 2014	Fair value measurements at the reporting date using		
		Quoted prices in active markets using identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash equivalents:				
Money market and other funds	$ 23,128	$—	$23,128	$—
Commercial paper	7,299	—	7,299	—
Time deposits	598	—	598	—
Taxable municipal bonds	10,137	—	10,137	—
Total cash equivalents	41,162	—	41,162	—
Available-for-sale investments:				
Debt securities:				
U.S. government securities	51,791	—	51,791	—
Commercial paper	22,094	—	22,094	—
Time deposits	22,669	—	22,669	—
Corporate bonds	1,538	—	1,538	—
Taxable municipal bonds	104,195	—	104,195	—
Total debt securities	202,287	—	202,287	—
Equity securities	6,569	6,569	—	—
Total available-for-sale investments	208,856	6,569	202,287	—
Total assets at fair value	$ 250,018	$6,569	$243,449	$—

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

The Company also had financial instruments that were not measured at fair value. See “Note 6: Debt” for details.
The contractual maturities of the debt securities classified as available-for-sale at June 30, 2014 and December 31, 2013 were less than one year.
The cost and fair value of available-for-sale investments were as follows (in thousands):

Table of Contents

		Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available-for-sale investments as of	June 30, 2014				
Debt securities		$202,266	$ 30	$ (9)	$202,287
Equity securities		4,493	2,076	—	6,569
Total		$206,759	$ 2,106	$ (9)	$208,856
Available-for-sale investments as of	December 31, 2013	$203,479	$ 24	$ (23)	$203,480

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

Note 6: Debt

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

	June 30, 2014			December 31, 2013		
	Principal amount	Unamortized discount	Net carrying value	Principal amount	Unamortized discount	Net carrying value
Monoprice 2013 credit facility	$46,000	$(230)	$45,770	$50,000	$(288)	$49,712
TaxACT 2013 credit facility	19,384	—	19,384	71,384	—	71,384
Convertible Senior Notes	201,250	(17,903)	183,347	201,250	(19,667)	181,583
Total debt	$266,634	$(18,133)	$248,501	$322,634	$(19,955)	$302,679

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

Monoprice borrowed $50.0 million under the credit facility, which was used to pay a dividend to Blucora and to pay certain expenses and fees related to the credit facility. Monoprice repaid $4.0 million in 2014. Monoprice has the right to permanently reduce, without premium or penalty, the entire credit facility at any time or portions of the credit facility in an aggregate principal amount not less than $1.0 million or any whole multiple of $1.0 million in excess thereof (for swingline loans, the aggregate principal amount is not less than $0.1 million and any whole multiple of $0.1 million in excess thereof). The interest rate on amounts borrowed under the credit facility is variable, based upon, at the election of Monoprice, either LIBOR plus a margin of between 2.75% and 3.25%, payable as of the end of each interest period, or a variable rate plus a margin of between 1.75% and 2.25%, payable quarterly in arrears. In each case, the applicable margin within the range depends upon Monoprice’s ratio of leverage to EBITDA over the previous four quarters. The credit facility includes financial and operating covenants with respect to certain ratios, including leverage ratio and fixed charge coverage ratio, which are defined further in the agreement. As of June 30, 2014, Monoprice was in compliance with all of the financial and operating covenants. As of June 30, 2014, the credit facility’s principal amount approximated its fair value as it is a variable rate instrument and the current applicable margin approximates current market conditions.

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

The new 2013 credit facility consists of revolving credit loans, up to $10.0 million in swingline loans, and up to $5.0 million under a letter of credit, which in the aggregate represent a $100.0 million revolving credit commitment that

reduces to $90.0 million on August 30, 2014, to $80.0 million on August 30, 2015, and to $70.0 million on August 30, 2016. The final maturity date of the credit facility is August 30, 2018. TaxACT's obligations under the credit facility are guaranteed by TaxACT Holdings, Inc. and are secured by the assets of the TaxACT business.

Table of Contents

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

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

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

In connection with amounts classified as an extinguishment, the Company recorded $28,000 in deferred debt issuance costs, which are being amortized over the term of the new credit facility using the effective interest method as an adjustment to interest expense. The Company also determined that the remaining portion of the refinancing was a modification, and the Company determined a new effective interest rate based on the carrying amount of the original debt and the revised cash flows. Approximately $0.6 million, which is comprised of $0.4 million in deferred financing costs and $0.2 million in unamortized debt discount related to the prior credit agreement, are being amortized as an adjustment to interest expense over the remaining term of the new credit facility using the effective interest method. Similarly, additional creditor-related fees incurred of $0.1 million related to the modification are being amortized over the term of the new credit facility using the effective interest method.

Convertible Senior Notes: On March 15, 2013, the Company issued $201.25 million aggregate principal amount of its Convertible Senior Notes (the "Notes"), inclusive of the underwriters' exercise in full of their over-allotment option of $26.25 million. The Notes mature on April 1, 2019, unless earlier purchased, redeemed, or converted in accordance with the terms, and bear interest at a rate of 4.25% per year, payable semi-annually in arrears beginning on October 1, 2013. The Company 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 June 30, 2014, the Notes were not convertible.
- During the five business day period after any five consecutive trading day period (the "measurement period") in which the trading price per $1,000 principal amount of the Notes for each trading day of the measurement period was less than 98% of the product of the last reported sales price of the Company's common stock and the conversion rate on each trading day.

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

Table of Contents

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

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

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

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

At the time the Company issued the Notes, the Company was only permitted to settle conversions with shares of its common stock. The Company received shareholder approval at its annual meeting in May 2013 to allow for "flexible settlement," which provided the Company with the option to settle conversions in cash, shares of common stock, or any combination thereof. The Company's intention is to satisfy conversion of the Notes with cash for the principal amount of the debt and shares of common stock for any related conversion premium. As of June 30, 2014, the if-converted value of the Notes, based on the 25-day volume weighted average price methodology dictated by the Indenture, did not exceed the principal amount.

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

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

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

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

Table of Contents

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Contractual interest expense (Cash)	$2,139	$2,138	$4,277	$2,518
Amortization of debt issuance costs (Non-cash)	228	215	452	249
Accretion of debt discount (Non-cash)	890	841	1,764	973
Total interest expense	$3,257	$3,194	$6,493	$3,740
Effective interest rate of the liability component	7.32 %	7.36 %	7.32 %	7.32 %

The fair value of the principal amount of the Notes as of June 30, 2014 was $221.9 million, based on the last quoted active trading price, a Level 1 fair value measurement, as of that date.

Note 7: Commitments and Contingencies

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

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

On May 12, 2014, a putative class action complaint was filed in the U.S. District Court for the Western District of Washington against the Company and certain of its officers. The complaint asserts claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 promulgated thereunder. A substantially similar complaint was filed in the same court on May 14, 2014. These cases purport to be brought on behalf of a class of persons who purchased the Company's common stock during the period between November 5, 2013, and February 20, 2014. The Plaintiffs allege that the defendants violated the federal securities laws during this period of time by, among other things, issuing false and misleading statements and failing to disclose material adverse facts about the Company's business, operations, and prospects. The Plaintiffs claim that, as a result of these alleged wrongs, the price of the Company's common stock was artificially inflated during the purported class period. Plaintiffs are seeking unspecified compensatory damages, interest, and an award of attorneys' fees and costs. The Company believes that the claims against it are without merit and intends to defend itself vigorously in this matter.

Note 8: Stockholders' Equity

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

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Cost of revenues	$113	$228	$272	$447
Engineering and technology	315	319	744	572
Sales and marketing	722	526	1,641	1,003
General and administrative	1,808	1,680	3,709	3,216
Total	$2,958	$2,753	$6,366	$5,238
Excluded and capitalized as part of internal-use software	$23	$23	$54	$34

In May 2012, the Company granted 190,000 stock options to certain employees who perform acquisition-related activities. The awards' vestings were predicated on completing "qualified acquisitions" under the terms of the awards. The completion of the HSW acquisition on May 30, 2014 constituted a qualified acquisition under the terms of the awards. The vestings of the awards resulted in a charge of $0.3 million to stock-based compensation expense in the

three and six months ended June 30, 2014, which was classified in "General and administrative" expense.

Table of Contents

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 June 30,		Six months ended June 30,	
	2014	2013	2014	2013
RSUs vested	129	128	205	224
Stock options exercised	132	82	140	118
Shares purchased pursuant to ESPP	—	—	36	36
Total	261	210	381	378

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

Stock repurchase program: In February 2013, the Company's Board of Directors approved a stock repurchase program whereby the Company may purchase its common stock in open-market transactions. In May 2014, the Board of Directors increased the repurchase authorization, such that the Company may repurchase up to $85.0 million of its common stock, and extended the repurchase period through May 2016. Repurchased shares will be retired and resume the status of authorized but unissued shares of common stock. During the six months ended June 30, 2014, the Company purchased 1.4 million shares in open-market transactions at a total cost, exclusive of purchase and administrative costs, of $25.7 million and an average price of $18.05 per share. As of June 30, 2014, the Company may repurchase an additional $49.3 million, which also takes into consideration share repurchases during 2013 of $10.0 million, of its common stock under the repurchase program.

Note 9: Segment Information

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

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

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

Table of Contents

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Revenues:				
Search and Content	$79,818	$94,497	$186,583	$195,098
Tax Preparation	26,452	22,684	98,731	87,421
E-Commerce	35,299	—	72,438	—
Total revenues	141,569	117,181	357,752	282,519
Operating income:				
Search and Content	14,032	17,912	33,262	36,182
Tax Preparation	17,211	14,438	54,613	45,222
E-Commerce	2,378	—	5,856	—
Corporate-level activity	(15,847)	(11,973)	(31,341)	(23,768)
Total operating income	17,774	20,377	62,390	57,636
Other loss, net	(3,724)	(6,304)	(7,793)	(7,309)
Income tax expense	(5,313)	(5,667)	(19,873)	(18,313)
Net income	$8,737	$8,406	$34,724	$32,014

Note 10: Net Income Per Share

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

Weighted average shares were as follows (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Weighted average common shares outstanding, basic	41,570	41,050	41,866	40,981
Dilutive potential common shares	1,514	1,674	1,937	1,676
Weighted average common shares outstanding, diluted	43,084	42,724	43,803	42,657
Shares excluded	906	1,122	823	1,043

Shares excluded primarily related to stock options with an exercise price greater than the average price during the applicable periods and awards with performance conditions not completed during the applicable periods.

As more fully discussed in "Note 6: Debt," in March 2013, the Company issued the Notes, which are convertible and mature in April 2019. 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 in the three months ended June 30, 2014.

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

This Quarterly Report on Form 10-Q contains forward-looking statements that involve risks and uncertainties. The statements in this report that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements include, but are not limited to: statements regarding projections of our future financial performance; trends in our businesses; our future business plans and growth strategy, including our plans to expand, develop, or acquire particular operations, businesses, or assets; and the sufficiency of our cash balances and cash generated from operating, investing, and financing activities for our future liquidity and capital

resource needs.

Table of Contents

Forward-looking statements are subject to known and unknown risks, uncertainties, and other factors that may cause our results, levels of activity, performance, achievements, prospects, and other characterizations of future events or circumstances, to be materially different from those expressed or implied by such forward-looking statements. These risks, uncertainties, and other factors include, among others, those identified under Part II Item 1A, “Risk Factors,” and elsewhere in this report. You should not rely on forward-looking statements included herein, which speak only as of the date of this Quarterly Report on Form 10-Q or the date specified herein. We do not undertake any obligation to update publicly any forward-looking statement to reflect new information, events, or circumstances after the date of this Quarterly Report on Form 10-Q or to reflect the occurrence of unanticipated events.

Overview

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

Our Businesses

Search and Content

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

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

We derive a significant portion of our revenue from Google, and we expect this concentration to continue in the foreseeable future. For the three and six months ended June 30, 2014, Search revenue from Google accounted for approximately 79% and 82%, respectively, of our Search and Content segment revenue and 44% and 43%, respectively, of our total revenue. For further discussion of this concentration risk, see the paragraph in our Risk Factors (Part II Item 1A of this report) under the heading "Most of our search services revenue is attributable to Google, and the loss of, or a payment dispute with, Google or any other significant Search Customer would harm our business and financial results.”

On May 30, 2014, InfoSpace acquired HowStuffWorks (“HSW”), a provider of online content through various websites, including www.HowStuffWorks.com.

Tax Preparation

Our TaxACT business consists of an online tax preparation service for individuals, tax preparation software for individuals and professional tax preparers, and ancillary services. TaxACT generates revenue primarily through its online service at www.taxact.com. 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

Table of Contents

forms. The TaxACT business generates revenue from a percentage of these “free” users who purchase a state form or choose to upgrade for a fee to the Deluxe or Ultimate offering, which includes additional support, tools, or state forms in the case of the Ultimate offering. In addition, revenue is generated from the sale of ancillary services, which include, among other things, tax preparation support services, data archive services, bank services (including reloadable pre-paid debit card services), and additional e-filing services. TaxACT is the recognized value player in the digital do-it-yourself space, offering comparable software and/or services at a lower cost to the end user compared to larger competitors. This, coupled with its “free for everyone” offer, provides TaxACT a valuable marketing position. TaxACT’s professional tax preparer software allows professional tax preparers to file individual returns for their clients. Revenue from professional tax preparers historically has constituted a relatively small percentage of the TaxACT business’s overall revenue and requires relatively modest incremental development costs as the basic software is substantially similar to the consumer-facing software and online service.

E-Commerce

Our E-Commerce business, Monoprice, is an online retailer of self-branded electronics and accessories to both consumers and businesses. Monoprice offers its products for sale through the www.monoprice.com website, where the majority of our E-Commerce revenue is derived, and fulfills those orders from our warehouse in Rancho Cucamonga, California. We also sell our products through distributor, reseller, and marketplace agreements. Monoprice has built a well-respected consumer brand by delivering products with premium quality on par with well-known national brands, selling these products at prices far below the prices for those well-known brands, and providing top-tier service and rapid product delivery. The Monoprice website showcases 14 product categories and over 6,800 individual products. Monoprice has developed an efficient product cost structure that is enabled by a direct import supply chain solution that eliminates traditional layers of mark-ups imposed by intermediaries. Consumers are able to access and purchase products 24 hours a day from the convenience of a computer or a mobile device. Monoprice’s team of customer service representatives assists customers primarily by online chat or email. Nearly all sales are to customers located in the United States.

Seasonality

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

Acquisition

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

On August 22, 2013, we acquired Monoprice for $182.9 million in cash, after a $0.4 million working capital adjustment in the fourth quarter of 2013. Monoprice is included in our financial results beginning on August 22, 2013, the acquisition date.

Comparability

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

RESULTS OF OPERATIONS

Summary

(In thousands, except percentages)	Three months ended June 30,			Six months ended June 30,		
	2014	2013	Percentage Change	2014	2013	Percentage Change
Services revenue	$106,270	$117,181	(9)%	$285,314	$282,519	1%
Product revenue, net	35,299	—	100%	72,438	—	100%
Total revenues	$141,569	$117,181	21%	$357,752	$282,519	27%
Operating income	$17,774	$20,377	(13)%	$62,390	$57,636	8%

Table of Contents

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

Total revenues increased $24.4 million due to an increase of $3.8 million in our Tax Preparation business and the addition of $35.3 million in product revenue from the Monoprice business that we acquired in August 2013, offset by a decrease of $14.7 million in revenue related to our Search and Content business.

Operating income decreased $2.6 million, consisting of the $24.4 million increase in revenue and offset by a $27.0 million increase in operating expenses. Key changes in operating expenses were:

- $10.8 million decrease in the Search and Content segment's operating expenses primarily as a result of lower revenue share to our distribution partners with the decrease in Search and Content distribution revenue and decreased content costs, offset in part by higher spending on our online marketing.
- $1.0 million increase in the Tax Preparation segment's operating expenses primarily due to higher personnel expenses due to increased headcount.
- The inclusion of $32.9 million in E-Commerce segment operating expenses due to the acquisition of Monoprice in August 2013.
- $3.9 million increase in corporate-level expense activity primarily as a result of amortization expense associated with the acquisition of Monoprice, depreciation expense on fixed assets attributable to Monoprice, and employee separation costs.

Segment results are discussed in the next section.

Six months ended June 30, 2014 compared with six months ended June 30, 2013

Total revenues increased $75.2 million due to an increase of $11.3 million in our Tax Preparation business and the addition of $72.4 million in product revenue from the Monoprice business that we acquired in August 2013, offset by a net decrease of $8.5 million in revenue related to our Search and Content business.

Operating income increased approximately $4.8 million, consisting of the $75.2 million increase in revenue and offset by a $70.5 million increase in operating expenses. Key changes in operating expenses were:

- $5.6 million decrease in the Search and Content segment's operating expenses primarily as a result of lower revenue share to our distribution partners with the decrease in Search and Content distribution revenue and decreased content costs, offset by higher spending on our online marketing.
- $1.9 million increase in the Tax Preparation segment's operating expenses primarily due to higher personnel expenses due to increased headcount and higher spending on marketing campaigns for the current tax season.
- The inclusion of $66.6 million in E-Commerce segment operating expenses due to the acquisition of Monoprice in August 2013.
- $7.6 million increase in corporate-level expense activity primarily as a result of amortization expense associated with the acquisition of Monoprice, depreciation expense on fixed assets attributable to Monoprice, higher stock-based compensation related to the issuance of equity awards to Monoprice employees, increased equity award activity to existing employees, and stock options that vested upon completion of the HSW acquisition, and employee separation costs.

Segment results are discussed in the next section.

SEGMENT REVENUE/OPERATING INCOME

The revenue and operating income amounts in this section are presented on a basis consistent with GAAP and include certain reconciling items attributable to each of the segments. Segment information appearing in "Note 9: Segment Information" of the Notes to Unaudited Condensed Consolidated Financial Statements in Part I Item 1 of this report is presented on a basis consistent with our current internal management financial reporting. We do not allocate certain general and

Table of Contents

administrative costs (including personnel and overhead costs), stock-based compensation, depreciation, amortization of intangible assets, other loss, net, and income tax expense to segment operating results. We analyze these separately. Following the acquisition of Monoprice, we determined that we have three reportable segments: Search and Content, Tax Preparation, and E-Commerce.

Search and Content

(In thousands, except percentages)	Three months ended June 30,			Six months ended June 30,		
	2014	2013	Percentage Change	2014	2013	Percentage Change
Revenue	$79,818	$94,497	(16)%	$186,583	$195,098	(4)%
Operating income	$14,032	$17,912	(22)%	$33,262	$36,182	(8)%
Segment margin	18 %	19 %		18 %	19 %	

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

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

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

(In thousands, except percentages)	Three months ended June 30,				Six months ended June 30,			
	2014	Percentage of Revenue	2013	Percentage of Revenue	2014	Percentage of Revenue	2013	Percentage of Revenue
Revenue from existing distribution partners (launched prior to the then-current year)	$65,358	82 %	$75,851	80 %	$148,993	80 %	$163,152	84 %
Revenue from new distribution partners (launched during the then-current year)	1,162	1 %	4,713	5 %	1,291	1 %	5,884	3 %
Revenue from distribution partners	66,520	83 %	80,564	85 %	150,284	81 %	169,036	87 %
Revenue from owned and operated properties	13,298	17 %	13,933	15 %	36,299	19 %	26,062	13 %
Total Search and Content revenue	$79,818		$94,497		$186,583		$195,098	

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

Search and Content revenue decreased approximately $14.7 million, or 16%, primarily due to a decrease in revenue from distribution partners. Revenue from distribution partners decreased approximately $14.0 million, or 17%, driven by decreases of $10.5 million and $3.6 million in revenue from existing partners and new partners (both defined in table above), respectively. We generated 39% and 37% of our Search and Content revenue through our top five distribution partners in the three months ended June 30, 2014 and 2013, respectively. The web properties of our top five distribution partners for the three months ended June 30, 2014 generated 31% of our Search and Content revenue

in the three months ended June 30, 2013.

The decrease in distribution revenue was driven by factors--which included a technology change, changes to our mobile advertising offering as a result of our new agreement with Google, and suspended or limited access to our services for certain

Table of Contents

distribution partners due to normal monitoring of our policy and compliance requirements--as discussed further in the section "Update to volatility in the Search and Content business" below.
Revenue generated by our owned and operated properties (which includes HSW) decreased $0.6 million, or 5%, due to a decrease in revenue from our legacy owned and operated properties, offset by the revenue contribution from HSW.
Search and Content operating income decreased $3.9 million, consisting of the $14.7 million decrease in revenue, offset by a decrease of $10.8 million in operating expenses. The decrease in Search and Content segment operating expenses primarily was due to a $12.6 million, or 20%, decrease in Search and Content services cost of revenue, which was mainly driven by the decrease in distribution revenue and the resulting revenue share to our distribution partners and decreased content costs. This decrease was offset by a $1.3 million increase in spending on our online marketing, the result of which caused a lower return on online marketing expenditures. The lower return on online marketing expenditures experienced in the current period, which is discussed under "Update to volatility in the Search and Content business" below, coupled with flat core operating expenses, were the primary drivers of the decrease in segment margin.
Six months ended June 30, 2014 compared with six months ended June 30, 2013
Search and Content revenue decreased approximately $8.5 million, or 4%. Revenue from distribution partners decreased $18.8 million, or 11%, driven by decreases of $14.2 million and $4.6 million in revenue from existing partners and new partners (both defined in table above), respectively. The decrease in distribution revenue was affected by the same factors described above that impacted the quarterly period. Revenue generated by our owned and operated properties (which includes HSW) increased $10.2 million, or 39%, primarily as a result of year-over-year growth in the first quarter of 2014 of $10.9 million due to increased investment over the prior year in online marketing to drive end users to our owned and operated properties, offset by the net revenue decrease in the second quarter of 2014 as discussed above.
Search and Content operating income decreased $2.9 million, consisting of the $8.5 million decrease in revenue, offset by a decrease of $5.6 million in operating expenses. The decrease in Search and Content segment operating expenses primarily was due to a $17.5 million, or 13%, decrease in Search and Content services cost of revenue, which was mainly driven by the decrease in distribution revenue and the resulting revenue share to our distribution partners and decreased content costs. This decrease was offset by an $11.1 million increase in spending on our online marketing, the result of which caused a lower return on online marketing expenditures. The lower return on online marketing expenditures experienced in the current period, which is discussed under "Update to volatility in the Search and Content business" below, coupled with flat core operating expenses, were the primary drivers of the decrease in segment margin.
Update to volatility in the Search and Content business: We disclosed the following factors as having an impact on our results in the "Current volatility in the Search business" section in Part I Item 2 of our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2014: a technology change, changes to our mobile advertising offering as a result of our new agreement with Google, and suspended or limited access to our services for certain distribution partners due to normal monitoring of our policy and compliance requirements. We believe that the issues with the technology change have been substantially addressed.
Due to the factors listed above, as expected, we experienced downward pressure in our results for the second quarter of 2014 as follows:
•Decreased revenue from existing distribution partners;
•Decreased revenue from new distribution partners; and
•Lower return on online marketing expenditures.
We believe that the Search and Content segment results for the second quarter of 2014 are representative of the expected results going forward, although we expect that segment margin may compress further from the second quarter of 2014 level, in part due to the changes noted above. These results could be further impacted by a resurgence in these, or other volatility factors, including those discussed in our Risk Factors (Part II Item 1A of this report) under the section heading "Risks Related to our Search and Content Business."

We are working to optimize and enhance our search and content services in an effort to further stabilize and grow the Search and Content business on a sequential basis, including through the addition of HSW, although we expect year-over-year quarterly declines through the first quarter of 2015.

Table of Contents

Tax Preparation

(In thousands, except percentages)	Three months ended June 30,			Six months ended June 30,		
	2014	2013	Percentage Change	2014	2013	Percentage Change
Revenue	$26,452	$22,684	17 %	$98,731	$87,421	13 %
Operating income	$17,211	$14,438	19 %	$54,613	$45,222	21 %
Segment margin	65 %	64 %		55 %	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 and ancillary services to our customers. We also generate revenue through the professional tax preparer software that we sell to professional tax preparers who use it to prepare and file individual returns for their clients. Revenue from the professional tax preparation software is derived in two ways: from per-unit licensing fees for the software and from amounts that we charge to e-file through the software. Revenue from professional tax preparers historically has constituted a relatively small percentage of the overall revenue for the TaxACT business.

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

(In thousands, except percentages)	Six months ended June 30,		
	2014	2013	Percentage Change
TaxACT desktop e-files	251	275	(9)%
TaxACT online e-files	5,189	4,968	4 %
TaxACT sub-total e-files	5,440	5,243	4 %
TaxACT Free File Alliance e-files (1)	218	152	43 %
TaxACT total e-files	5,658	5,395	5 %

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

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

Tax Preparation revenue increased $3.8 million primarily due to a 4% increase in consumer e-files, growth in average revenue per user, increased sales of bank services in the current year, and increasing payments over the past couple years related to data archive services that are recognized as revenue over the related contractual term. Revenue derived from professional tax preparers also contributed to the increase, with an 18% increase in preparer e-files coupled with an increase in the number of professional preparer units sold.

Tax Preparation operating income increased $2.8 million due to the $3.8 million increase in revenue, offset by an increase of $1.0 million in operating expenses. The increase in Tax Preparation segment operating expenses primarily was due to an increase in personnel expenses mainly due to higher headcount supporting all functions.

Six months ended June 30, 2014 compared with six months ended June 30, 2013

Tax Preparation revenue increased $11.3 million primarily due to a 4% increase in consumer e-files, growth in average revenue per user, increased sales of bank services in the current year, and increasing payments over the past couple years related to data archive services that are recognized as revenue over the related contractual term. Revenue derived from professional tax preparers also contributed to the increase, with a 12% increase in preparer e-files coupled with an increase in the number of professional preparer units sold.

- 24 -

Table of Contents

Tax Preparation operating income increased $9.4 million due to the $11.3 million increase in revenue, offset by an increase of $1.9 million in operating expenses. The increase in Tax Preparation segment operating expenses primarily was due to an increase in personnel expenses mainly due to higher headcount supporting all functions and, to a lesser extent, increased spending on marketing campaigns for the current tax season.

E-Commerce

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

(In thousands, except percentages)	Three months ended June 30, 2014	Six months ended June 30, 2014
Revenue	$35,299	$72,438
Operating income	$2,378	$5,856
Segment margin	7 %	8 %

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

	Three months ended June 30, 2014	Six months ended June 30, 2014
Order numbers	(7)%	(5)%

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

The remaining operating expenses primarily consist of personnel expenses (which include salaries, benefits, and other employee-related costs) related to personnel engaged in sales and marketing (including fulfillment, which includes purchasing, customer and technical support, receiving, inspection, and warehouse functions), engineering and technology, and general and administrative activities, as well as marketing costs, credit card fees, temporary help, contractors, and facility costs. For the three and six months ended June 30, 2014, E-Commerce segment operating expenses included a $1.2 million charge triggered by the resignation of Ajay Kumar, the President of Monoprice. On June 24, 2014, the Company accepted the resignation of Mr. Kumar, and under the circumstances of that resignation, Mr. Kumar was entitled to receive payment under the terms of the Restricted Cash Agreement that was entered into in connection with our acquisition of Monoprice. The amount that Mr. Kumar was entitled to under the Restricted Cash Agreement was the deferred amount that he otherwise would have been entitled to receive at the time of the 2013 sale of Monoprice to Blucora. Refer to our Current Report on Form 8-K dated June 24, 2014 for additional information. Discussion of the employee separation costs paid to Mr. Kumar is covered under Corporate-Level Activity below.

Corporate-Level Activity

(In thousands)	Three months ended June 30,			Six months ended June 30,		
	2014	2013	Change	2014	2013	Change
Operating expenses	$3,833	$3,135	$698	$7,055	$6,333	$722
Stock-based compensation	2,958	2,753	205	6,366		