BLUCORA, INC.
Form 10-Q
April 30, 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 March 31, 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 April 23, 2015
Common Stock, Par Value $0.0001	40,910,551

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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)

	March 31, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$61,854	$46,444
Available-for-sale investments	249,586	254,854
Accounts receivable, net of allowance of $101 and $67	32,522	30,988
Other receivables	1,404	3,295
Inventories	34,015	29,246
Prepaid expenses and other current assets, net	10,896	13,477
Total current assets	390,277	378,304
Property and equipment, net	16,011	15,942
Goodwill, net	304,658	304,658
Other intangible assets, net	161,635	168,919
Other long-term assets	4,525	4,891
Total assets	$877,106	$872,714
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Current liabilities:		
Accounts payable	$40,432	$37,755
Accrued expenses and other current liabilities	27,999	21,505
Deferred revenue	7,096	7,884
Short-term portion of long-term debt, net	—	7,914
Total current liabilities	75,527	75,058
Long-term liabilities:		
Long-term debt, net	54,940	85,835
Convertible senior notes, net	186,117	185,177
Deferred tax liability, net	26,624	42,963
Deferred revenue	2,844	1,915
Other long-term liabilities	3,258	2,741
Total long-term liabilities	273,783	318,631
Total liabilities	349,310	393,689
Commitments and contingencies (Note 7)		
Stockholders’ equity:		
Common stock, par $0.0001—authorized shares, 900,000; issued and outstanding shares, 40,851 and 40,882	4	4
Additional paid-in capital	1,493,361	1,467,658
Accumulated deficit	(964,424)	(987,524)
Accumulated other comprehensive loss	(1,145)	(1,113)
Total stockholders’ equity	527,796	479,025
Total liabilities and stockholders’ equity	$877,106	$872,714

See accompanying notes to Unaudited Condensed Consolidated Financial Statements.

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

	Three months ended March 31,	
	2015	2014
Revenues:		
Services revenue	$139,814	$179,044
Product revenue, net	35,012	37,139
Total revenues	174,826	216,183
Operating expenses:		
Cost of revenues:		
Services cost of revenue	34,941	71,293
Product cost of revenue	24,100	25,029
Total cost of revenues	59,041	96,322
Engineering and technology	5,217	4,135
Sales and marketing	54,196	55,836
General and administrative	10,409	8,632
Depreciation	1,138	1,058
Amortization of intangible assets	6,118	5,584
Total operating expenses	136,119	171,567
Operating income	38,707	44,616
Other loss, net	(3,726)	(4,069)
Income before income taxes	34,981	40,547
Income tax expense	(11,881)	(14,560)
Net income	$23,100	$25,987
Net income per share:		
Basic	$0.56	$0.62
Diluted	$0.55	$0.58
Weighted average shares outstanding:		
Basic	40,987	42,162
Diluted	41,899	44,521
Other comprehensive income (loss):		
Net income	$23,100	$25,987
Unrealized gain (loss) on available-for-sale investments, net of tax	(73)	14
Reclassification adjustment for realized loss on available-for-sale investments, net of tax, included in net income	41	—
Other comprehensive income (loss)	(32)	14
Comprehensive income	$23,068	$26,001

See accompanying notes to Unaudited Condensed Consolidated Financial Statements.

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

	Three months ended March 31,	
	2015	2014
Operating Activities:		
Net income	$23,100	$25,987
Adjustments to reconcile net income to net cash from operating activities:		
Stock-based compensation	2,699	3,408
Depreciation and amortization of intangible assets	9,442	8,864
Excess tax benefits from stock-based award activity	(25,861)	(22,743)
Deferred income taxes	(17,461)	(10,423)
Amortization of premium on investments, net	483	1,085
Amortization of debt issuance costs	348	281
Accretion of debt discounts	1,131	906
Other	107	39
Cash provided (used) by changes in operating assets and liabilities:		
Accounts receivable	(1,575)	1,017
Other receivables	1,891	3,695
Inventories	(4,769)	(687)
Prepaid expenses and other current assets	3,454	347
Other long-term assets	24	75
Accounts payable	2,677	(5,267)
Deferred revenue	141	199
Accrued expenses and other current and long-term liabilities	32,358	19,812
Net cash provided by operating activities	28,189	26,595
Investing Activities:		
Purchases of property and equipment	(1,002)	(1,247)
Purchases of intangible assets	(696)	—
Proceeds from sales of investments	3,304	12,272
Proceeds from maturities of investments	68,243	68,923
Purchases of investments	(66,833)	(72,415)
Net cash provided by investing activities	3,016	7,533
Financing Activities:		
Proceeds from credit facilities	18,000	4,000
Repayment of credit facilities	(57,000)	(48,000)
Stock repurchases	(4,445)	—
Excess tax benefits from stock-based award activity	25,861	22,743
Proceeds from stock option exercises	1,616	86
Proceeds from issuance of stock through employee stock purchase plan	608	665
Tax payments from shares withheld upon vesting of restricted stock units	(435)	(1,091)
Net cash used by financing activities	(15,795)	(21,597)
Net increase in cash and cash equivalents	15,410	12,531
Cash and cash equivalents, beginning of period	46,444	130,225
Cash and cash equivalents, end of period	$61,854	$142,756
Supplemental disclosure of non-cash investing activities:		
Purchases of property and equipment through leasehold incentives	$515	$120
Cash paid for:		
Income taxes	$782	$575

Interest	$612	$876

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, tax preparation software for individuals 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 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.

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 contingencies. 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, accrued contingencies, stock option valuation, and valuation allowance for deferred tax assets. Actual amounts may differ from estimates.

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

Note 2: Summary of Significant Accounting Policies

Interim financial information: The accompanying consolidated financial statements have been prepared by the Company under the rules and regulations of the Securities and Exchange Commission (the "SEC") for interim financial reporting. These consolidated financial statements are unaudited and, in management's opinion, include all adjustments, consisting of normal recurring adjustments and accruals, necessary for a fair presentation of the consolidated financial position, results of operations, and cash flows for the periods presented. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been omitted in accordance with the rules and regulations of the SEC. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes in Part II Item 8 of the Company's Annual Report on Form 10-K for the year ended December 31, 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 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

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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, 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, 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 of financial instruments: The Company measures its cash equivalents and available-for-sale investments 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.

Supplier concentration risk: During the three months ended March 31, 2015 and 2014, Monoprice inventory purchases from two key unrelated vendors accounted for 16% and 19% 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, 2016. Earlier adoption is not permitted. The Company currently is evaluating the impact of this guidance on its consolidated financial statements.

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Note 3: Business Combinations

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

Note 4: Goodwill and Other Intangible Assets

The following table presents goodwill by reportable segment as of March 31, 2015 and December 31, 2014, the balances of which did not change from period to period (in thousands):

	Search and Content	Tax Preparation	E-Commerce	Total
Goodwill, net	$59,912	$ 188,541	$56,205	$304,658

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

	March 31, 2015			December 31, 2014		
	Gross carrying amount	Accumulated amortization	Net	Gross carrying amount	Accumulated amortization	Net
Definite-lived intangible assets:						
Customer relationships	$132,500	$ (55,658)	$76,842	$132,500	$ (50,075)	$82,425
Technology	44,805	(37,591)	7,214	44,805	(35,649)	9,156
Content	18,200	(1,516)	16,684	18,200	(1,061)	17,139
Other	6,667	(6,667)	—	6,667	(6,667)	—
Total definite-lived intangible assets	202,172	(101,432)	100,740	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	$263,067	$ (101,432)	$161,635	$262,371	$ (93,452)	$168,919

Amortization expense was as follows (in thousands):

	Three months ended March 31,	
	2015	2014
Statement of comprehensive income line item:		
Services cost of revenue	$1,862	$1,885
Amortization of intangible assets	6,118	5,584
Total	$7,980	$7,469

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Expected amortization of definite-lived intangible assets held as of March 31, 2015 is presented in the table below (in thousands):

	2015	2016	2017	2018	2019	Thereafter	Total
Services cost of revenue	$5,588	$621	$—	$—	$—	$—	$6,209
Amortization of intangible assets	15,762	17,206	17,155	16,970	16,838	10,600	94,531
Total	$21,350	$17,827	$17,155	$16,970	$16,838	$10,600	$100,740

The weighted average amortization periods for definite-lived intangible assets are as follows: 57 months for customer relationships, 14 months for technology, 110 months for content, and 63 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):

		Fair value measurements at the reporting date using		
	March 31, 2015	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	$2,954	$—	$2,954	$—
Commercial paper	6,000	—	6,000	—
Time deposits	250	—	250	—
Taxable municipal bonds	505	—	505	—
Total cash equivalents	9,709	—	9,709	—
Available-for-sale investments:				
Debt securities:				
U.S. government securities	110,030	—	110,030	—
International government securities	5,257	—	5,257	—
Commercial paper	20,387	—	20,387	—
Time deposits	28,272	—	28,272	—
Taxable municipal bonds	82,851	—	82,851	—
Total debt securities	246,797	—	246,797	—
Equity securities	2,789	2,789	—	—
Total available-for-sale investments	249,586	2,789	246,797	—
Total assets at fair value	$259,295	$2,789	$256,506	$—

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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.

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

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 March 31, 2015				
Debt securities	$246,782	$ 38	$ (23)	$246,797
Equity securities	3,944	—	(1,155)	2,789
Total	$250,726	$ 38	$ (1,178)	$249,586
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

As of March 31, 2015 and December 31, 2014, the Company's equity securities, which consist of a single holding in a publicly-traded company, were in an unrealized loss position for less than 12 months. The Company has determined that such position was temporary.

Note 6: Debt

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

	March 31, 2015			December 31, 2014		
	Principal amount	Unamortized discount	Net carrying value	Principal amount	Unamortized discount	Net carrying value
Monoprice 2013 credit facility	$28,000	$—	$28,000	$42,000	$(191)	$41,809
TaxACT 2013 credit facility	26,940	—	26,940	51,940	—	51,940
Convertible Senior Notes	201,250	(15,133)	186,117	201,250	(16,073)	185,177
Total debt	$256,190	$(15,133)	$241,057	$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, 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, which was used to pay a dividend to Blucora and to pay certain expenses and fees related to the credit facility. Monoprice had net repayment activity of $14.0 million and $8.0 million on the credit facility in 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 term loan in full, 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. The interest rate on amounts borrowed under the credit facility is variable, based upon, at the election of Monoprice, either LIBOR plus a margin of between 2.75% and 3.25%, payable as of the end of each interest period, or a variable rate plus a margin of between 1.75% and 2.25%, payable quarterly in arrears. In each case, the applicable margin within the range depends upon Monoprice’s ratio of leverage to EBITDA over the previous four quarters. The credit facility includes financial and operating covenants with respect to certain ratios, including leverage ratio and fixed charge coverage ratio, which are defined further in the agreement. As of March 31, 2015, Monoprice was in compliance with all of the financial and operating covenants. As of March 31, 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 $90.0 million on August 30, 2014 and will reduce to $80.0 million on August 30, 2015 and $70.0 million on August 30, 2016. The final maturity date of the credit facility is August 30, 2018. TaxACT’s obligations under the credit facility are guaranteed by TaxACT Holdings, Inc. and are secured by the assets of the TaxACT business.

TaxACT initially borrowed approximately $71.4 million under the 2013 credit facility. TaxACT had net repayment activity of $25.0 million and $19.4 million in 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. The interest rate on amounts borrowed under the credit facility is variable, based upon, at the election of TaxACT, either LIBOR plus a margin of between 1.75% and 2.5%, or a Base Rate plus a margin of between 0.75% and 1.5%, and payable as of the end of each interest period. In each case, the applicable margin within the range depends upon TaxACT’s ratio of leverage to EBITDA over the previous four quarters. The credit facility includes financial and operating covenants with respect to certain ratios, including leverage ratio and fixed charge coverage ratio, which are defined further in the agreement. As of March 31, 2015, the Company was in compliance with all of the financial and operating covenants. As of March 31, 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.

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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 March 31, 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.

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 March 31,			
	2015		2014	
Contractual interest expense (Cash)	$2,138		$2,138	
Amortization of debt issuance costs (Non-cash)	241		224	
Accretion of debt discount (Non-cash)	940		874	
Total interest expense	$3,319		$3,236	
Effective interest rate of the liability component	7.32	%	7.32	%

The fair value of the principal amount of the Notes as of March 31, 2015 was $189.5 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 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. 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 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 profits resulting from those allegedly improper sales. On March 25, 2015, the Company moved to dismiss the Complaint based on the plaintiffs’ failure to file this matter in the proper court, and the decision on this motion is pending. The Company has entered into indemnification agreements in the ordinary course of business with its officers and directors and may be obligated throughout the pendency of this action 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.

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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 March 31,	
	2015	2014
Cost of revenues	$49	$159
Engineering and technology	292	429
Sales and marketing	430	919
General and administrative	1,928	1,901
Total	$2,699	$3,408
Excluded and capitalized as part of internal-use software	$16	$31

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 March 31,	
	2015	2014
Stock options exercised	171	8
RSUs vested	58	76
Shares purchased pursuant to ESPP	52	36
Total	281	120

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 three months ended March 31, 2015, the Company purchased 0.3 million shares in open-market transactions at a total cost of approximately $4.4 million and an average price of $14.21 per share, exclusive of purchase and administrative costs. There was no repurchase activity during the three months ended March 31, 2014. As of March 31, 2015, the Company may repurchase an additional $32.0 million, which also 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 (formerly known as the Search segment) is the InfoSpace business, which now includes HSW, the Tax Preparation segment is the TaxACT business, and the E-Commerce segment is the Monoprice business. The Company's chief executive officer is its chief operating decision maker and reviews financial information presented on a disaggregated basis. This information is used for purposes of allocating resources and evaluating financial performance.

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

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

	Three months ended March 31, 2015	2014
Revenues:		
Search and Content	$58,746	$106,765
Tax Preparation	81,068	72,279
E-Commerce	35,012	37,139
Total revenues	174,826	216,183
Operating income:		
Search and Content	8,398	19,230
Tax Preparation	44,145	37,402
E-Commerce	2,562	3,478
Corporate-level activity	(16,398)	(15,494)
Total operating income	38,707	44,616
Other loss, net	(3,726)	(4,069)
Income tax expense	(11,881)	(14,560)
Net income	$23,100	$25,987

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, 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 March 31, 2015	2014
Weighted average common shares outstanding, basic	40,987	42,162
Dilutive potential common shares	912	2,359
Weighted average common shares outstanding, diluted	41,899	44,521
Shares excluded	2,735	739

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 during the three months ended March 31, 2015 and 2014.

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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, 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.

Our Businesses

Search and Content

Our Search and Content segment (formerly known as our Search 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 properties include services through websites such as Dogpile.com, WebCrawler.com, HowStuffWorks.com (acquired May 30, 2014, see below), and third party web pages that we operate. 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.

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 and Yahoo!, 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' 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 in the foreseeable future. For the three months ended March 31, 2015, Search and Content revenue from Google accounted for approximately 73% of our Search and Content segment revenue and 24% 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."

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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 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 warehouse in Rancho Cucamonga, California. 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. The Monoprice website showcases 14 product categories and over 7,300 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.

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.

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.

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RESULTS OF OPERATIONS

Summary

(In thousands, except percentages)	Three months ended March 31,		
	2015	2014	Percentage Change
Services revenue	$139,814	$179,044	(22)%
Product revenue, net	35,012	37,139	(6)%
Total revenues	$174,826	$216,183	(19)%
Operating income	$38,707	$44,616	(13)%

Three months ended March 31, 2015 compared with three months ended March 31, 2014

Total revenues decreased approximately $41.4 million due to decreases of $48.0 million in revenue related to our Search and Content business and $2.1 million in product revenue from the E-Commerce business, offset by an increase of $8.8 million in revenue related to our Tax Preparation business.

Operating income decreased approximately $5.9 million, consisting of the $41.4 million decrease in revenue and offset by a $35.4 million decrease in operating expenses. Key changes in operating expenses were:

- $37.2 million decrease in the Search and Content segment’s operating expenses, primarily as a result of lower revenue share owed to our distribution partners resulting from the decrease in Search and Content distribution revenue, decreased content costs, and lower spending on our online marketing, offset by higher personnel expenses due to increased headcount.
- $2.0 million increase in the Tax Preparation segment’s operating expenses, primarily due to increased spending on marketing campaigns for the current tax season and higher personnel expenses due to increased headcount.
- $1.2 million decrease in the E-Commerce segment's operating expenses, primarily due to lower E-Commerce product cost of revenue resulting from the decrease in product revenue.
- $0.9 million increase in corporate-level expense activity, primarily as a result of amortization expense associated with the acquisition of HSW and higher personnel expenses due to increased headcount to support operations, offset by lower stock-based compensation primarily related to a lower number of awards outstanding in the quarter ended March 31, 2015 as compared to March 31, 2014, mainly due to the timing of personnel changes.

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.

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Search and Content

(In thousands, except percentages)	Three months ended March 31,		
	2015	2014	Percentage Change
Revenue	$58,746	$106,765	(45)%
Operating income	$8,398	$19,230	(56)%
Segment margin	14 %	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 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, as well as third party web pages that we operate, 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.

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 March 31,			
	2015	Percentage of Revenue	2014	Percentage of Revenue
Revenue from existing distribution partners (launched prior to the then-current year)	$38,871	66 %	$83,636	78 %
Revenue from new distribution partners (launched during the then-current year)	28	—	129	—
Revenue from distribution partners	38,899	66 %	83,765	78 %
Revenue from owned and operated properties	19,847	34 %	23,000	22 %
Total Search and Content revenue	$58,746		$106,765	

Three months ended March 31, 2015 compared with three months ended March 31, 2014

Search and Content revenue decreased approximately $48.0 million, or 45%. Revenue from distribution partners decreased $44.9 million, or 54%, driven by decreases of $44.8 million in revenue from existing partners and $0.1 million in revenue from new partners (both defined in table above). We generated 31% and 36% of our Search and Content revenue through our top five distribution partners in the three months ended March 31, 2015 and 2014, respectively. The web properties of our top five distribution partners for the three months ended March 31, 2015 generated 23% of our Search and Content revenue in the three months ended March 31, 2014.

The decrease in distribution revenue was driven by previously disclosed factors that impacted the sequential quarterly revenue declines in 2014 and included the removal of advertisements for our mobile search services as a result of our April 2014 agreement with Google, a technology change, 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 properties (which includes HSW) decreased $3.2 million, or 14%, primarily due to lower returns on online marketing. This decrease was offset partially by the revenue contribution from HSW. The lower returns on online marketing were attributable to our inability to consistently and profitably scale online marketing expenditures due to decreases in the revenue earned for this traffic without corresponding decreases in the cost to acquire traffic, which we believe relates to volatility with respect to the quality scores that are applied by our Search Customers to certain of our sites. We have limited visibility into the factors impacting these scores or how these scores impact revenue and

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cost, since these elements are proprietary to our Search Customers. To the extent that we experience continued volatility in quality scores, we could be challenged going forward in our ability to increase marketing expenditures while maintaining our desired rate of return. Additionally, as it relates to our owned and operated websites where we derive revenue through online marketing, changes by our Search Customers in online marketing requirements and policies could limit or materially impact our ability to generate revenue.

Search and Content operating income decreased approximately $10.8 million, consisting of the $48.0 million decrease in revenue, offset by a decrease of $37.2 million in operating expenses. The decrease in Search and Content segment operating expenses primarily was due to a $36.4 million, or 55%, decrease in Search and Content services cost of revenue, which was mainly driven by the decrease in distribution revenue and the resulting revenue share owed to our distribution partners and decreased content costs, and a $2.2 million decrease in spending on our online marketing, offset by increased personnel expenses due to higher headcount primarily as a result of the HSW acquisition. Segment margin decreased primarily due to increased personnel expenses and flat non-personnel operating expenses on declining revenues, as well as a lower return on our online marketing expenditures.

As noted above and as discussed in our Annual Report on Form 10-K for the year ended December 31, 2014, we have experienced factors that have caused significant volatility in the Search and Content business. These factors have caused quarterly sequential revenue declines in 2014 and have continued into the quarter ended March 31, 2015. These factors will continue to impact us in 2015, and we expect a quarterly sequential revenue decline for the second quarter of 2015. As previously disclosed, we have taken steps to redeploy resources toward product and service diversification initiatives that we believe will better align with our Search Customers' preferences and, in the long term, should stabilize quarterly sequential results and lead to future growth. Although we are targeting stabilization in the second half of 2015, the early stage of our diversification initiatives and the continued pressure on our existing revenue streams from the factors discussed above mean that uncertainty in our ability to achieve this result exists.

Tax Preparation

(In thousands, except percentages)	Three months ende