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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549  
**FORM 10-Q**

(Mark One)

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

For the quarterly period ended March 31, 2017

Or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 000-49799

 **overstock™**  
**OVERSTOCK.COM, INC.**  
(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**87-0634302**

(I.R.S. Employer Identification Number)

**799 West Coliseum Way, Midvale, Utah**

(Address of principal executive offices)

**84047**

(Zip Code)

**(801) 947-3100**

(Registrant's telephone number, including area code)

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), (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

There were 24,995,269 shares of the Registrant's common stock, par value \$0.0001, outstanding on April 27, 2017.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

**Overstock.com, Inc.**  
**Consolidated Balance Sheets (Unaudited)**  
(in thousands)

	March 31, 2017	December 31, 2016
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 136,415	\$ 183,098
Restricted cash	355	430
Accounts receivable, net	21,615	28,142
Inventories, net	17,726	18,937
Prepaid inventories, net	2,738	2,112
Prepays and other current assets	11,789	11,654
Total current assets	190,638	244,373
Fixed assets, net	137,296	134,552
Precious metals	9,946	9,946
Deferred tax assets, net	66,351	56,266
Intangible assets, net	10,099	10,913
Goodwill	14,698	14,698
Other long-term assets, net	12,273	14,328
Total assets	\$ 441,301	\$ 485,076
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 86,089	\$ 106,337
Accrued liabilities	81,417	96,216
Deferred revenue	40,187	41,780
Finance obligations, current	3,267	3,256
Other current liabilities, net	1,604	1,627
Total current liabilities	212,564	249,216
Long-term debt, net	43,921	44,179
Finance obligations, non-current	11,003	11,831
Other long-term liabilities	6,840	6,890
Total liabilities	274,328	312,116
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Preferred stock, \$0.0001 par value, authorized shares - 5,000		
Series A, issued and outstanding - 127	—	—
Series B, issued and outstanding - 569	—	—
Common stock, \$0.0001 par value		
Authorized shares - 100,000		
Issued shares - 28,078 and 27,895		
Outstanding shares - 24,963 and 25,432	3	3
Additional paid-in capital	384,942	383,348
Accumulated deficit	(150,427)	(153,898)
Accumulated other comprehensive loss	(1,391)	(1,540)
Treasury stock:		
Shares at cost - 3,115 and 2,463	(63,409)	(52,587)
Equity attributable to stockholders of Overstock.com, Inc.	169,718	175,326
Equity attributable to noncontrolling interests	(2,745)	(2,366)
Total equity	166,973	172,960
Total liabilities and stockholders' equity	\$ 441,301	\$ 485,076

See accompanying notes to unaudited consolidated financial statements.

**Overstock.com, Inc.**  
**Consolidated Statements of Operations (Unaudited)**  
(in thousands, except per share data)

	Three months ended March 31,	
	2017	2016
Revenue, net		
Direct	\$ 22,828	\$ 26,651
Partner and other	409,607	387,026
Total net revenue	432,435	413,677
Cost of goods sold		
Direct(1)	20,963	25,406
Partner and other	324,565	310,964
Total cost of goods sold	345,528	336,370
Gross profit	86,907	77,307
Operating expenses:		
Sales and marketing(1)	37,618	31,456
Technology(1)	28,992	25,710
General and administrative(1)	22,610	21,848
Litigation settlement	—	(19,520)
Total operating expenses	89,220	59,494
Operating income (loss)	(2,313)	17,813
Interest income	125	91
Interest expense	(710)	(2)
Other income (expense), net	(3,724)	4,156
Income (loss) before income taxes	(6,622)	22,058
Provision (benefit) for income taxes	(340)	8,964
Consolidated net income (loss)	\$ (6,282)	\$ 13,094
Less: Net loss attributable to noncontrolling interests	(379)	(335)
Net income (loss) attributable to stockholders of Overstock.com, Inc.	\$ (5,903)	\$ 13,429
Net income (loss) per common share—basic:		
Net income (loss) attributable to common shares—basic	\$ (0.23)	\$ 0.53
Weighted average common shares outstanding—basic	25,290	25,280
Net income (loss) per common share—diluted:		
Net income (loss) attributable to common shares—diluted	\$ (0.23)	\$ 0.53
Weighted average common shares outstanding—diluted	25,290	25,290
<hr/>		
(1) Includes stock-based compensation as follows (Note 8):		
Cost of goods sold — direct	\$ 49	\$ 51
Sales and marketing	96	49
Technology	160	167
General and administrative	635	701
Total	\$ 940	\$ 968

See accompanying notes to unaudited consolidated financial statements.

**Overstock.com, Inc.**  
**Consolidated Statements of Comprehensive Income (Loss) (Unaudited)**  
**(in thousands)**

	Three months ended March 31,	
	2017	2016
Consolidated net income (loss)	\$ (6,282)	\$ 13,094
Other comprehensive income (loss):		
Unrealized loss on cash flow hedges, net of benefit (expense) for taxes of \$(95) and \$715	149	(1,020)
Other comprehensive income (loss)	149	(1,020)
Comprehensive income (loss)	\$ (6,133)	\$ 12,074
Less: Comprehensive loss attributable to noncontrolling interests	(379)	(335)
Comprehensive income (loss) attributable to stockholders of Overstock.com, Inc.	\$ (5,754)	\$ 12,409

**See accompanying notes to unaudited consolidated financial statements.**

**Overstock.com, Inc.**  
**Consolidated Statements of Changes in Stockholders' Equity (Unaudited)**  
(in thousands)

	<b>Three months ended March 31, 2017</b>
<b>Equity attributable to stockholders of Overstock.com, Inc.</b>	
Number of common shares issued	
Balance at beginning of period	27,895
Common stock issued upon vesting of restricted stock	143
Exercise of stock options	40
Balance at end of period	28,078
Number of treasury stock shares	
Balance at beginning of period	2,463
Purchases of treasury stock	652
Balance at end of period	3,115
Total number of outstanding shares	24,963
Common stock	\$ 3
Number of Series A preferred shares issued and outstanding	
Balance at beginning of period	127
Series A preferred shares issued	—
Balance at end of period	127
Number of Series B preferred shares issued and outstanding	
Balance at beginning of period	569
Series B preferred shares issued	—
Balance at end of period	569
Preferred stock	\$ —
Additional paid-in capital	
Balance at beginning of period	\$ 383,348
Stock-based compensation to employees and directors	940
Exercise of stock options	654
Balance at end of period	\$ 384,942
Accumulated deficit	
Balance at beginning of period	\$ (153,898)
Cumulative effect of change in accounting principle	9,374
Net loss attributable to stockholders of Overstock.com, Inc.	(5,903)
Balance at end of period	\$ (150,427)
Accumulated other comprehensive loss	
Balance at beginning of period	\$ (1,540)
Net other comprehensive income	149
Balance at end of period	\$ (1,391)
Treasury stock	
Balance at beginning of period	\$ (52,587)
Purchases of treasury stock	(10,822)
Balance at end of period	(63,409)
Total equity attributable to stockholders of Overstock.com, Inc.	\$ 169,718
<b>Equity attributable to noncontrolling interests</b>	
Balance at beginning of period	\$ (2,366)
Net loss attributable to noncontrolling interests	(379)
Total equity attributable to noncontrolling interests	\$ (2,745)
<b>Total equity</b>	<b>\$ 166,973</b>

See accompanying notes to unaudited consolidated financial statements.

**Overstock.com, Inc.**  
**Consolidated Statements of Cash Flows (Unaudited)**  
(in thousands)

	Three months ended March 31,		Twelve months ended March 31,	
	2017	2016	2017	2016
<b>Cash flows from operating activities:</b>				
Consolidated net income (loss)	\$ (6,282)	\$ 13,094	\$ (8,128)	\$ 11,766
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:				
Depreciation of fixed assets	7,698	6,189	28,792	24,359
Amortization of intangible assets	945	1,098	3,815	2,649
Stock-based compensation to employees and directors	940	968	4,863	3,716
Deferred income taxes, net	(806)	7,684	(771)	7,469
Loss on investment in precious metals	—	—	(201)	1,183
Loss on investment in cryptocurrency	—	—	—	35
Impairment of cost method investment	4,500	—	7,350	—
Ineffective portion of loss on cash flow hedge	—	—	—	124
Termination costs of cryptobond financing	—	—	—	850
Other	38	13	381	(6)
Changes in operating assets and liabilities, net of acquisitions:				
Accounts receivable, net	6,527	(951)	(2,528)	(800)
Inventories, net	1,211	603	1,713	5,028
Prepaid inventories, net	(626)	109	(1,536)	2,972
Prepays and other current assets	(1,173)	3,107	(1,891)	525
Other long-term assets, net	(404)	12	(1,202)	(268)
Accounts payable	(20,456)	(45,515)	6,236	10,216
Accrued liabilities	(13,689)	(13,336)	16,583	(7,130)
Deferred revenue	(1,593)	(8,132)	(2,625)	(930)
Other long-term liabilities	73	554	119	1,344
Net cash (used in) provided by operating activities	(23,097)	(34,503)	50,970	63,102
<b>Cash flows from investing activities:</b>				
Proceeds from sale of precious metals	—	—	1,610	—
Investment in precious metals	—	—	(1,633)	—
Equity method investment	—	—	—	(57)
Disbursement of note receivable	(250)	(2,850)	(1,068)	(7,850)
Cost method investments	(453)	—	(5,203)	(2,000)
Acquisitions of businesses, net of cash acquired	—	1,177	43	(9,424)
Expenditures for fixed assets, including internal-use software and website development	(11,344)	(19,592)	(64,033)	(72,493)
Other	(442)	29	(416)	(136)
Net cash used in investing activities	(12,489)	(21,236)	(70,700)	(91,960)
<b>Cash flows from financing activities:</b>				
Paydown on direct financing arrangement	—	(54)	—	(288)
Payments on finance obligations	(817)	(375)	(2,348)	(479)
Payments on interest swap	—	(141)	(422)	(198)
Proceeds from finance obligations	—	3,421	7,978	9,119
Proceeds from short-term debt	—	—	—	5,500
Payments on short-term debt	—	—	—	(750)
Proceeds from long-term debt	—	11,123	25,150	20,611
Payments on long-term debt	(187)	—	(187)	—
Change in restricted cash	75	—	75	75
Proceeds from exercise of stock options	654	—	1,473	77
Proceeds from rights offering, net of offering costs	—	—	7,591	—
Purchase of treasury stock	(10,822)	(308)	(11,354)	(321)
Payment of debt issuance costs	—	—	—	(621)
Net cash (used in) provided by financing activities	(11,097)	13,666	27,956	32,725
Net (decrease) increase in cash and cash equivalents	(46,683)	(42,073)	8,226	3,867
Cash and cash equivalents, beginning of period	183,098	170,262	128,189	124,322
Cash and cash equivalents, end of period	\$ 136,415	\$ 128,189	\$ 136,415	\$ 128,189

*Continued on the following page*  
**Overstock.com, Inc.**  
**Consolidated Statements of Cash Flows (Unaudited)**  
**(Continued)**  
**(in thousands)**

	Three months ended March 31,		Twelve months ended March 31,	
	2017	2016	2017	2016
<b>Supplemental disclosures of cash flow information:</b>				
<b>Cash paid during the period:</b>				
Interest paid (net of amounts capitalized)	\$ 646	\$ 279	\$ 1,636	\$ 495
Taxes paid	—	479	859	680
<b>Non-cash investing and financing activities:</b>				
Fixed assets, including internal-use software and website development, costs financed through accounts payable and accrued liabilities	\$ 1,317	\$ 6,181	\$ 1,317	\$ 6,181
Capitalized interest cost	—	39	66	157
Acquisition of businesses through stock issuance	—	—	—	18,149
Change in value of cash flow hedge	(240)	1,594	(2,493)	1,718
Note receivable converted to cost method investment	—	—	2,850	—

**See accompanying notes to unaudited consolidated financial statements.**



**Overstock.com, Inc.**  
**Notes to Unaudited Consolidated Financial Statements**

**1. BASIS OF PRESENTATION**

As used herein, "Overstock," "Overstock.com," "O.co," "we," "our" and similar terms include Overstock.com, Inc. and its majority-owned subsidiaries, unless the context indicates otherwise.

We have prepared the accompanying unaudited consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") regarding interim financial reporting. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements and should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and our audited annual consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2016. The accompanying unaudited consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, which are, in our opinion, necessary for a fair presentation of results for the interim periods presented. Preparing financial statements requires us to make estimates and assumptions that affect the amounts that are reported in the consolidated financial statements and accompanying disclosures. Although these estimates are based on our best knowledge of current events and actions that we may undertake in the future, actual results may be different from the estimates. The results of operations for the three months ended March 31, 2017 are not necessarily indicative of the results to be expected for any future period or the full fiscal year.

For purposes of comparability, the presentation of certain immaterial amounts in the prior periods has been conformed with the current period presentation. We also retrospectively applied certain accounting standard updates as discussed in Note 2—Accounting Policies, Recently adopted accounting standards.

**2. ACCOUNTING POLICIES**

*Principles of consolidation*

The accompanying consolidated financial statements include our accounts and the accounts of our wholly-owned and majority-owned subsidiaries. All intercompany account balances and transactions have been eliminated in consolidation.

*Use of estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent liabilities in the consolidated financial statements and accompanying notes. Estimates are used for, but not limited to, investment valuation, receivables valuation, valuation of derivative financial instruments, revenue recognition, sales returns, incentive discount offers, inventory valuation, depreciable lives of fixed assets and internally-developed software, goodwill valuation, intangible asset valuation, cost method investment valuation, income taxes, stock-based compensation, performance-based compensation, self-funded health insurance liabilities and contingencies. Actual results could differ materially from these estimates.

*Cash equivalents*

We classify all highly liquid instruments, including instruments with a remaining maturity of three months or less at the time of purchase, as cash equivalents. Cash equivalents were \$50.2 million and \$75.2 million at March 31, 2017 and December 31, 2016, respectively.

*Restricted cash*

We consider cash that is legally restricted and cash that is held as a compensating balance for letter of credit arrangements as restricted cash.

*Fair value of financial instruments*

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We account for our assets and liabilities using a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our market assumptions. These two types of inputs have created the fair-value hierarchy below. This hierarchy requires us to minimize the use of unobservable inputs and to use observable market data, if available, when determining fair value.

- Level 1—Quoted prices for identical instruments in active markets;
- Level 2—Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets; and
- Level 3—Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

Under GAAP, certain assets and liabilities are required to be recorded at fair value on a recurring basis. Our assets and liabilities that are adjusted to fair value on a recurring basis are investments in money market mutual funds, trading securities, derivative instruments, and deferred compensation liabilities.

The fair values of our investments in money market mutual funds, trading securities, and deferred compensation liabilities are determined using quoted market prices from daily exchange traded markets on the closing price as of the balance sheet date and are classified as Level 1.

The fair values of our derivative instruments are determined using standard valuation models. The significant inputs used in these models are readily available in public markets, or can be derived from observable market transactions, and therefore have been classified as Level 2. Inputs used in these standard valuation models for derivative instruments include the applicable forward rates, interest rates and discount rates. Included in the fair value of derivative instruments is an adjustment for nonperformance risk. The adjustment for nonperformance risk did not have a significant impact on the estimated fair value of our derivative instruments. For additional disclosures related to our derivative instruments, see *Derivative financial instruments* below.

The following tables summarize our assets and liabilities measured at fair value on a recurring basis using the following levels of inputs as of March 31, 2017 and December 31, 2016 as indicated (in thousands):

	Fair Value Measurements at March 31, 2017:			
	Total	Level 1	Level 2	Level 3
<b>Assets:</b>				
Cash equivalents - Money market mutual funds	\$ 50,248	\$ 50,248	\$ —	\$ —
Trading securities held in a “rabbi trust” (1)	63	63	—	—
Total assets	\$ 50,311	\$ 50,311	\$ —	\$ —
<b>Liabilities:</b>				
Derivatives (2)	\$ 1,570	\$ —	\$ 1,570	\$ —
Deferred compensation accrual “rabbi trust” (3)	65	65	—	—
Total liabilities	\$ 1,635	\$ 65	\$ 1,570	\$ —

	Fair Value Measurements at December 31, 2016:			
	Total	Level 1	Level 2	Level 3
<b>Assets:</b>				
Cash equivalents - Money market mutual funds	\$ 75,177	\$ 75,177	\$ —	\$ —
Trading securities held in a “rabbi trust” (1)	58	58	—	—
Total assets	\$ 75,235	\$ 75,235	\$ —	\$ —
<b>Liabilities:</b>				
Derivatives (2)	\$ 1,816	\$ —	\$ 1,816	\$ —
Deferred compensation accrual “rabbi trust” (3)	61	61	—	—
Total liabilities	\$ 1,877	\$ 61	\$ 1,816	\$ —

- (1) — Trading securities held in a rabbi trust are included in Prepaids and other current assets and Other long-term assets, net in the consolidated balance sheets.
- (2) — Derivative financial instruments are included in Other current liabilities, net and Other long-term liabilities in the consolidated balance sheets.
- (3) — Non qualified deferred compensation in a rabbi trust is included in Accrued liabilities and Other long-term liabilities in the consolidated balance sheets.

Our other financial instruments, including cash, restricted cash, accounts receivable, accounts payable, accrued liabilities, finance obligations and debt are carried at cost, which approximates their fair value.

#### *Accounts receivable*

Accounts receivable consist primarily of trade amounts due from customers in the United States and from uncleared credit card transactions at period end. Accounts receivable are recorded at invoiced amounts and do not bear interest.

#### *Allowance for doubtful accounts*

From time to time, we grant credit to some of our business customers on normal credit terms (typically 30 days). We maintain an allowance for doubtful accounts receivable based upon our business customers' financial condition and payment history, and our historical collection experience and expected collectability of accounts receivable. The allowance for doubtful accounts receivable was \$2.1 million and \$2.0 million at March 31, 2017 and December 31, 2016, respectively.

#### *Concentration of credit risk*

Cash equivalents include short-term, highly liquid instruments with maturities at date of purchase of three months or less. At March 31, 2017 and December 31, 2016, two banks held the majority of our cash and cash equivalents. We do not believe that, as a result of this concentration, we are subject to any unusual financial risk beyond the normal risk associated with commercial banking relationships.

Financial instruments that potentially subject us to significant concentrations of credit risk consist primarily of cash equivalents and receivables. We invest our cash primarily in money market securities which are uninsured.

#### *Valuation of inventories*

Inventories, consisting of merchandise purchased for resale, are accounted for using a standard costing system which approximates the first-in-first-out ("FIFO") method of accounting, and are valued at the lower of cost and net realizable value. We write down our inventory for damage or estimated obsolescence and to lower of cost and net realizable value based upon assumptions about future demand market conditions and fulfillment costs. If actual market conditions are less favorable than those projected by management, additional inventory write-downs may be required. Once established, the original cost of the inventory less the related inventory allowance represents the new cost basis of such products. Reversal of the allowance is recognized only when the related inventory has been sold or scrapped.

#### *Prepaid inventories, net*

Prepaid inventories, net represent inventories paid for in advance of receipt.

#### *Prepaids and other current assets*

Prepaids and other current assets represent expenses paid prior to receipt of the related goods or services, including advertising, license fees, maintenance, packaging, insurance, and other miscellaneous costs.

#### *Fixed assets, net*

Fixed assets, which include assets such as our corporate headquarters, land improvements, building machinery and equipment, furniture and equipment, technology infrastructure, internal-use software, website development and leasehold

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improvements, are recorded at cost and depreciated using the straight-line method over the estimated useful lives of the related assets or the term of the related capital lease, whichever is shorter, as follows:

	<b>Life (years)</b>
Building	40
Land improvements	20
Building machinery and equipment	15-20
Furniture and equipment	5-7
Computer hardware	3-4
Computer software	2-4

Leasehold improvements are amortized over the shorter of the term of the related leases or estimated useful lives.

Included in fixed assets is the capitalized cost of internal-use software and website development, including software used to upgrade and enhance our Website and processes supporting our business. We capitalize costs incurred during the application development stage of internal-use software and amortize these costs over the estimated useful life of two to three years. Costs incurred related to design or maintenance of internal-use software are expensed as incurred.

During the three months ended March 31, 2017 and 2016, we capitalized \$3.5 million and \$4.7 million, respectively, of costs associated with internal-use software and website development, both developed internally and acquired externally. Amortization of costs associated with internal-use software and website development was \$4.3 million and \$3.8 million, respectively, for those respective periods.

Depreciation expense is classified within the corresponding operating expense categories on the consolidated statements of operations as follows (in thousands):

	<b>Three months ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
Cost of goods sold - direct	\$ 83	\$ 77
Technology	6,685	5,920
General and administrative	930	192
Total depreciation, including internal-use software and website development	<u>\$ 7,698</u>	<u>\$ 6,189</u>

Total accumulated depreciation of fixed assets was \$187.6 million and \$180.3 million at March 31, 2017 and December 31, 2016, respectively.

Upon sale or retirement of assets, cost and related accumulated depreciation and amortization are removed from the balance sheet and the resulting gain or loss is reflected in the consolidated statements of operations.

Fixed assets included assets under capital leases and finance obligations of \$21.5 million and \$21.5 million, at March 31, 2017 and December 31, 2016, respectively. Accumulated depreciation related to assets under capital leases and finance obligations was \$10.0 million and \$8.7 million, at March 31, 2017 and December 31, 2016, respectively.

Depreciation expense of assets recorded under capital leases was \$1.3 million and \$699,000, for the three months ended March 31, 2017 and 2016, respectively.

#### *Cost method investments*

At March 31, 2017, we held minority interests (less than 20%) in seven privately held entities, which include PeerNova, Bitt, IdentityMind, Factom, MarkaVIP, View, Inc., and Ripio. The total aggregate amount of these investments (excluding any adjustments for impairment) was approximately \$15.1 million. Based on the nature of one of our investments, we have a variable interest. However, because we do not have power to direct the investee's activities and we are not the investee's primary beneficiary, we therefore do not consolidate the investee in our financial statements.

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These investments are recognized as cost method investments included in Other long-term assets, net in our consolidated balance sheets. Earnings from the investments are recognized to the extent of dividends received, and we will recognize subsequent impairments to the investment if they are other than temporary. We review these investments individually for impairment by evaluating if events or circumstances have occurred that may have a significant adverse effect on their fair value. If such events or circumstances have occurred, we will estimate the fair value of the investment and determine if any decline in the fair value of the investment below its carrying value is other-than-temporary. In such cases, the estimated fair value of the investment is determined using unobservable inputs including assumptions by the investee's management. These inputs are classified as Level 3. See *Fair value of financial instruments* above. Because several of our investees are in the early startup or development stages, these entities are subject to potential changes in cash flows, valuation, and inability to attract new investors which may be necessary for the liquidity needed to support their operations.

At March 31, 2017, the carrying amount of our cost method investments was approximately \$7.7 million. We recognized a \$2.9 million impairment loss on one of these investments during 2016, which consisted of the entire carrying amount of the investment. We recognized a \$4.5 million impairment loss on another one of these investments during the three months ended March 31, 2017. These impairment losses were recorded in Other income (expense), net on the consolidated statements of operations.

### *Noncontrolling interests*

During 2014, we formed tØ.com, Inc. (formerly Medici, Inc.) to develop blockchain and fintech technology as part of our Medici initiatives. tØ.com is a majority owned subsidiary of Overstock. During 2016, tØ.com completed the acquisition of a financial technology firm and two registered broker dealers, each of which was under common control with the firm from which the financial technology assets were purchased. The former owners of that firm hold noncontrolling interests in tØ.com. These transactions are described further in Note 3—Acquisitions, Goodwill, and Acquired Intangible Assets. The proceeds for the acquisitions were financed by tØ.com through a note payable to Overstock that bears interest at a rate that approximates the Federal Funds Rate. tØ.com is included in our consolidated financial statements. Intercompany transactions have been eliminated and the amounts of contributions and gains or losses that are attributable to the noncontrolling interests are disclosed in our consolidated financial statements.

### *Leases*

We account for lease agreements as either operating or capital leases depending on certain defined criteria. In certain of our lease agreements, we receive rent holidays and other incentives. We recognize lease costs on a straight-line basis without regard to deferred payment terms, such as rent holidays, that defer the commencement date of required payments. Additionally, tenant improvement allowances are amortized as a reduction in rent expense over the term of the lease. Leasehold improvements are capitalized at cost and amortized over the lesser of their expected useful life or the life of the lease, without assuming renewal features, if any, are exercised.

### *Treasury stock*

We account for treasury stock under the cost method and include treasury stock as a component of stockholders' equity.

### *Precious metals*

Our precious metals consisted of \$5.9 million in gold and \$4.0 million in silver at March 31, 2017 and December 31, 2016. We store our precious metals at an off-site secure facility. Because these assets consist of actual precious metals, rather than financial instruments, we account for them as an investment initially recorded at cost (including transaction fees) and then adjusted to the lower of cost or market based on an average unit cost. On an interim basis, we recognize decreases in the value of these assets caused by market declines. Subsequent increases in the value of these assets through market price recoveries during the same fiscal year are recognized in the later interim period, but may not exceed the total previously recognized decreases in value during the same year. Gains or losses resulting from changes in the value of our precious metal assets are recorded in Other income (expense), net in our consolidated statements of operations. There were no recorded gains or losses on investments in precious metals for the three months ended March 31, 2017 and 2016.

### *Goodwill*

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Goodwill represents the excess of the purchase price paid over the fair value of the net assets acquired in business combinations. Goodwill is not amortized but is tested for impairment at least annually. When evaluating whether goodwill is impaired, we make a qualitative assessment to determine if it is more likely than not that its fair value is less than its carrying amount. If the qualitative assessment determines that it is more likely than not that its fair value is less than its carrying amount, we compare the fair value of the reporting unit to which the goodwill is assigned to its carrying amount. If the carrying amount exceeds its fair value, then the amount of the impairment loss must be measured. The impairment loss, if any, is calculated by comparing the implied fair value of the goodwill to its carrying amount. In calculating the implied fair value of goodwill, the fair value of the reporting unit is allocated to the other assets and liabilities within the reporting unit based on estimated fair value. The excess of the fair value of a reporting unit over the amount allocated to its other assets and liabilities is the implied fair value of goodwill. An impairment loss is recognized when the carrying amount of goodwill exceeds its implied fair value.

In accordance with this guidance, we test for impairment of goodwill annually or when we deem that a triggering event has occurred. There were no impairments to goodwill recorded during the three months ended March 31, 2017 or the year ended December 31, 2016.

*Intangible assets other than goodwill*

We capitalize and amortize intangible assets other than goodwill over their estimated useful lives unless such lives are indefinite. Intangible assets other than goodwill acquired separately from third-parties are capitalized at cost while such assets acquired as part of a business combination are capitalized at their acquisition-date fair value. Intangible assets other than goodwill are amortized using the straight line method of amortization over their useful lives, with the exception of certain intangibles (such as acquired technology, customer relationships, and trade names) which are amortized using an accelerated method of amortization based on cash flows. These assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable as described below under *Impairment of long-lived assets*.

Intangible assets, net consist of the following (in thousands):

	March 31, 2017	December 31, 2016
Acquired intangible assets	\$ 16,000	\$ 16,000
Intangible assets, other (1)	1,487	1,356
	17,487	17,356
Less: accumulated amortization of intangible assets	(7,388)	(6,443)
Total intangible assets, net	\$ 10,099	\$ 10,913

(1) — At March 31, 2017, the weighted average remaining useful life for intangible assets, other, excluding fully amortized intangible assets, was 3.50 years.

Amortization of intangible assets other than goodwill is classified within the corresponding operating expense categories on the consolidated statements of operations as follows (in thousands):

	Three months ended March 31,	
	2017	2016
Technology	\$ 905	\$ 726
Sales and marketing	20	350
General and administrative	20	22
Total amortization	\$ 945	\$ 1,098

Estimated amortization expense for the next five years is: \$2.8 million for the remainder of 2017, \$2.8 million in 2018, \$2.0 million in 2019, \$1.3 million in 2020, \$900,000 in 2021 and \$100,000 thereafter.

*Impairment of long-lived assets*

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We review property and equipment and other long-lived assets, including intangible assets other than goodwill, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset group may not be recoverable. Recoverability is measured by comparison of the assets' carrying amount to future undiscounted net cash flows the asset group is expected to generate. Cash flow forecasts are based on trends of historical performance and management's estimate of future performance, giving consideration to existing and anticipated competitive and economic conditions. If such asset group is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds their fair values. There were no impairments to long-lived assets recorded during the three months ended March 31, 2017 or the year ended December 31, 2016.

### *Other long-term assets, net*

Other long-term assets, net consist primarily of cost method investments (see *Cost method investments* above) and related convertible notes and long-term prepaid expenses.

### *Derivative financial instruments*

In 2014, we entered into a loan agreement in connection with the construction of our new corporate headquarters. We began borrowing under the facility in October 2015. Because amounts borrowed on the loan will carry a variable LIBOR-based interest rate, we will be affected by changes in certain market conditions. These changes in market conditions may adversely impact our financial performance, and as such, we use derivatives as a risk management tool to mitigate the potential impact of these changes. We do not enter into derivatives for speculative or trading purposes. The primary market risk we manage through the use of derivative instruments is interest rate risk on the amounts we have borrowed under the loan agreement relating to our new headquarters. To manage that risk, we use interest rate swap agreements. An interest rate swap agreement is a contract between two parties to exchange cash flows based on underlying notional amounts and indices. Our interest rate swaps entitle us to pay amounts based on a fixed rate in exchange for receipt of amounts based on variable rates over the term of the related loan agreement. The notional amounts under our hedges were \$45.6 million and \$45.8 million at March 31, 2017 and December 31, 2016, respectively.

Our derivatives are carried at fair value in our consolidated balance sheets in Other current liabilities, net and Other long-term liabilities on a gross basis. The accounting for gains and losses that result from changes in the fair values of derivative instruments depends on whether the derivatives have been designated and qualify as hedging instruments under GAAP. Our derivatives have been designated and qualify as cash flow hedges. We formally designated and documented, at inception, the financial instruments as hedges of specific underlying exposures, the risk management objectives, and the strategy for undertaking the hedging transactions. In addition, we formally assess, both at the inception and at least quarterly thereafter, whether the financial instruments used in hedging transactions are effective at offsetting changes in the cash flows of the related underlying exposures. To the extent that the hedges are effective, the changes in fair values of our cash flow hedges are recorded in Accumulated other comprehensive income (loss) in the consolidated statements of changes in stockholders' equity. Any ineffective portion is immediately recognized into earnings. The variable-rate interest on the borrowing for our new corporate headquarters was capitalized during the construction period. The amounts in Accumulated other comprehensive income (loss) related to the cash flow hedge of the variability of the interest that was capitalized is reclassified into earnings over the depreciable life of the asset. During the three months ended March 31, 2016, the amount of gains or losses in accumulated other comprehensive income (loss) that has been reclassified into earnings was not material and the amounts at March 31, 2017 that we will reclassify into earnings within the next 12 months is not expected to be material.

We determine the fair values of our derivatives based on quoted market prices or using standard valuation models (see *Fair value of financial instruments* above). The notional amounts of the derivative financial instruments do not necessarily represent amounts exchanged by the parties and, therefore, are not a direct measure of our exposure to the financial risks described above. The amounts exchanged are calculated by reference to the notional amounts and by other terms of the derivatives, such as interest rates.

The following table shows the effect of derivative financial instruments that were designated as accounting hedges for the period indicated (in thousands):

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Cash flow hedges	Amount of gain (loss) recognized in OCI on derivative (effective portion) net of tax	Location of gain (loss) reclassified from Accumulated OCI into operations (effective portion)	Amount of gain (loss) reclassified from Accumulated OCI into operations (effective portion)	Location of gain (loss) recognized in operations on derivative (ineffective portion)	Amount of gain (loss) recognized in operations on derivative (ineffective portion)
Three months ended March 31, 2017					
Interest rate swap	\$ 149	Interest expense	\$ 4	Other income (expense)	\$ —
Three months ended March 31, 2016					
Interest rate swap	\$ (1,020)	Interest expense	\$ —	Other income (expense)	\$ —

The following table provides the outstanding notional balances and fair values of derivative financial instruments that were designated as accounting hedges outstanding positions for the dates indicated, and recorded gains (losses) during the periods indicated (in thousands):

Cash flow hedges	Location in balance sheet	Expiration date	Outstanding notional	Fair value	Beginning gains (losses)	Gains (losses) recorded during period (1)	Ending gains (losses)
Three months ended March 31, 2017							
Interest rate swap	Current and Other long-term liabilities	2023	\$ 45,573	\$ (1,570)	\$ (1,816)	\$ 246	\$ (1,570)
Three months ended March 31, 2016							
Interest rate swap	Current and Other long-term liabilities	2023	\$ 34,097	\$ (3,991)	\$ (2,397)	\$ (1,594)	\$ (3,991)

(1) — Gains (losses) recorded during the period are presented gross of the related tax impact.

*Revenue recognition*

We derive our revenue primarily from direct revenue and partner revenue from merchandise sales. We also earn revenue from advertising on our website and from other pages. We have organized our operations into two principal reporting segments based on the primary source of revenue: direct revenue and partner revenue (see Note 9—Business Segments).

Revenue is recognized when the following revenue recognition criteria are met: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or the service has been provided; (3) the selling price or fee revenue earned is fixed or determinable; and (4) collection of the resulting receivable is reasonably assured. Revenue related to merchandise sales is recognized upon delivery to our customers. As we ship high volumes of packages through multiple carriers, it is not practical for us to track the actual delivery date of each shipment. Therefore, we use estimates to determine which shipments are delivered and, therefore, recognized as revenue at the end of the period. Our delivery date estimates are based on average shipping transit times, which are calculated using the following factors: (i) the type of shipping carrier (as carriers have different in-transit times); (ii) the fulfillment source (either our warehouses, those warehouses we control, or those of our partners); (iii) the delivery destination; and (iv) actual transit time experience, which shows that delivery date is typically one to eight business days from the date of shipment. We review and update our estimates on a quarterly basis based on our actual transit time experience. However, actual shipping times may differ from our estimates.

We evaluate the criteria outlined in ASC Topic 605-45, *Principal Agent Considerations*, in determining whether it is appropriate to record the gross amount of product sales and related costs or the net amount earned as commissions. When we are the primary obligor in a transaction, are subject to inventory risk, have latitude in establishing prices and selecting suppliers, or have several but not all of these indicators, revenue is recorded gross. If we are not the primary obligor in the transaction and amounts earned are determined using a fixed percentage, revenue is recorded on a net basis. Currently, the majority of both direct revenue and partner revenue is recorded on a gross basis, as we are the primary obligor. We present revenue net of sales taxes. We periodically provide incentive offers to our customers to encourage purchases. Such offers include current discount



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offers, such as percentage discounts off current purchases and other similar offers, which, when used by customers, are treated as a reduction of revenue.

We evaluate the revenue recognition criteria above for our broker dealer subsidiaries (see Note 10—Broker Dealers) and we recognize securities transactions (and the related commission revenue) on a trade date and gross basis.

Based upon our historical experience, direct and partner revenues typically increase during the fourth quarter because of the holiday retail season and decrease in the following quarter(s).

### *Direct revenue*

Direct revenue is derived from merchandise sales of our owned inventory to individual consumers and businesses. Direct revenue comes from merchandise sales that occur primarily through our Website, but may also occur through offline and other channels.

### *Partner and other revenue*

Partner and other revenue is derived primarily from merchandise sales of inventory owned by our partners which they generally ship directly to our consumers and businesses. Partner and other revenue comes from merchandise sales that occur primarily through our Website, but may also occur through offline and other channels, including through our broker dealer subsidiaries in our Other segment.

### *Club O loyalty program*

We have a customer loyalty program called Club O Gold for which we sell annual memberships. For Club O Gold memberships, we record membership fees as deferred revenue and we recognize revenue ratably over the membership period. The Club O Gold loyalty program allows members to earn Club O Reward dollars for qualifying purchases made on our Website. We also have a co-branded credit card program (see *Co-branded credit card program* below for more information). Co-branded cardholders are also Club O Gold members and earn additional reward dollars for purchases made on our Website, and from other merchants.

Earned Club O Reward dollars may be redeemed on future purchases made through our Website. We recognize revenue for Club O Reward dollars when customers redeem their reward dollars as part of a purchase on our Website. We account for these transactions as multiple element arrangements and allocate revenue to the elements using their relative fair values. We include the value of reward dollars earned in deferred revenue and we record it as a reduction of revenue at the time the reward dollars are earned. Club O Gold membership reward dollars expire 90 days after the customer's Club O Gold membership expires. When Club O Reward dollars expire, we recognize reward dollar breakage as Other income (expense), net in our consolidated statements of operations.

Beginning in 2015, we enrolled a significant number of members in Club O Silver, a newly introduced Club O membership tier for customers who agree to receive promotional emails. Club O Silver members earned Club O Rewards on qualifying purchases that expire after 90 days from a qualifying purchase. We discontinued Club O Silver in October 2016, and as a result we do not expect further Club O Silver rewards breakage in the future.

In instances where customers receive free Club O Reward dollars not associated with any purchases, we account for these transactions as sales incentives such as coupons and record a reduction of revenue at the time the reward dollars are redeemed.

### *Co-branded credit card program*

We have a co-branded credit card agreement with a commercial bank for the issuance of credit cards bearing the Overstock.com brand, under which the bank pays us fees for new accounts and for customer usage of the cards. The agreement also provides for a customer loyalty program offering reward points that customers will accrue from card usage and can use to make purchases on our Website (see *Club O loyalty program* above for more information). New account fees are recognized as revenue on a straight-line basis over the estimated expected life of co-branded credit card customers. Credit card usage fees are recognized as revenues as actual credit card usage occurs.

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We also have a private label credit card agreement with another commercial bank for the issuance of credit cards bearing our brand, but that is only available for use on our Website. In connection with the agreement, we received upfront fees that we recognize as revenue on a straight line basis over the term of the agreement, which runs through February 2022. When customers make regular revolving purchases using the card, we receive fees, which are recognized as revenue. When we offer promotional financing for purchases made with the card (for example, 12 months same as cash), we pay a discount fee to the commercial bank, which we recognize as a reduction of revenue. The commercial bank owns all of the accounts under the program and performs all account administration, underwriting and servicing. Fees and royalties from new accounts, credit card usage fees, and fees from both of these cards were less than 1% of total net revenues for all periods presented.

### *Deferred revenue*

Customer orders are recorded as deferred revenue prior to delivery of products or services ordered. We record amounts received for Club O Gold membership fees as deferred revenue and we recognize it ratably over the membership period. We record Club O Reward dollars earned from purchases as deferred revenue at the time they are earned and we recognize it as revenue upon redemption. If reward dollars are not redeemed, we recognize other income upon expiration. In addition, we sell gift cards and record related deferred revenue at the time of the sale. We sell gift cards without expiration dates and we recognize revenue from a gift card upon redemption of the gift card. If a gift card is not redeemed, we recognize other income when the likelihood of its redemption becomes remote based on our historical redemption experience. We consider the likelihood of redemption to be remote after 36 months.

We periodically enter into agreements with other parties to jointly market ancillary products or services on our website. As a result of those agreements, we sometimes receive payments in advance of performing our obligations under those agreements. Such payments received before we perform our obligations are initially recorded as deferred revenue and then recognized over our service period.

### *Sales returns allowance*

We inspect returned items when they arrive at our processing facility. We refund the full cost of the merchandise returned and all original shipping charges if the returned item is defective or we or our partners have made an error, such as shipping the wrong product.

If the return is not a result of a product defect or a fulfillment error and the customer initiates a return of an unopened item within 30 days of delivery, for most products we refund the full cost of the merchandise minus the original shipping charge and actual return shipping fees. However, we reduce refunds for returns initiated more than 30 days after delivery or that are received at our returns processing facility more than 45 days after initial delivery.

If our customer returns an item that has been opened or shows signs of wear, we issue a partial refund minus the original shipping charge and actual return shipping fees.

Revenue is recorded net of estimated returns. We record an allowance for returns based on current period revenues and historical returns experience. We analyze actual historical returns, current economic trends and changes in order volume and acceptance of our products when evaluating the adequacy of the sales returns allowance in any accounting period.

The allowance for returns was \$13.5 million and \$18.2 million at March 31, 2017 and December 31, 2016, respectively.

### *Credit card chargeback allowance*

Revenue is recorded net of credit card chargebacks. We maintain an allowance for credit card chargebacks based on current period revenues and historical chargeback experience. The allowance for chargebacks was \$301,000 and \$431,000 at March 31, 2017 and December 31, 2016, respectively.

### *Cost of goods sold*

Cost of goods sold includes product costs, warehousing costs, outbound shipping costs, handling and fulfillment costs, customer service costs and credit card fees, and is recorded in the same period in which related revenues have been recorded. Cost of goods sold, including product cost and other costs and fulfillment and related costs are as follows (in thousands):

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	Three months ended March 31,			
	2017		2016	
Total revenue, net	\$ 432,435	100%	\$ 413,677	100%
Cost of goods sold				
Product costs and other cost of goods sold	326,803	76%	318,074	77%
Fulfillment and related costs	18,725	4%	18,296	4%
Total cost of goods sold	345,528	80%	336,370	81%
Gross profit	\$ 86,907	20%	\$ 77,307	19%

*Advertising expense*

We expense the costs of producing advertisements the first time the advertising takes place and expense the cost of communicating advertising in the period during which the advertising space or airtime is used. Internet advertising expenses are recognized as incurred based on the terms of the individual agreements, which are generally: 1) a commission for traffic driven to the Website that generates a sale or 2) a referral fee based on the number of clicks on keywords or links to our Website generated during a given period. Advertising expense is included in sales and marketing expenses and totaled \$33.8 million and \$28.8 million during the three months ended March 31, 2017 and 2016, respectively. Prepaid advertising (included in Prepaids and other current assets in the accompanying consolidated balance sheets) was \$1.2 million and \$843,000 at March 31, 2017 and December 31, 2016, respectively.

*Stock-based compensation*

We measure compensation expense for all outstanding unvested share-based awards at fair value on the date of grant and recognize compensation expense over the service period for awards at the greater of a straight line basis or on an accelerated schedule when vesting of restricted stock awards exceeds a straight line basis. As a result of the adoption of ASU No. 2016-09, we made an accounting policy election to record forfeitures when they occur. When an award is forfeited prior to the vesting date, we recognize an adjustment for the previously recognized expense in the period of the forfeiture. See Note 8—Stock-Based Awards.

*Self-funded health insurance*

As of January 1, 2017, we established a partially self-funded health insurance plan for our employees. We maintain a stop-loss insurance policy through an insurance company that limits our losses both on a per employee basis and an aggregate basis. Although we intend to maintain this plan indefinitely, we may terminate, modify, suspend, or discontinue this plan at any time and for any reason.

We are responsible for estimating our liability for unpaid costs of insured events that have occurred, which includes known cases on a case-by-case basis, and also for events that have occurred, but have not yet been reported. As of March 31, 2017, we have recorded an accrued liability of approximately \$1.2 million. Actual claims may differ from the estimate and any difference could be significant. This accrual is included in accrued liabilities in the accompanying consolidated balance sheets.

*Loss contingencies*

In the normal course of business, we are involved in legal proceedings and other potential loss contingencies. We accrue a liability for such matters when it is probable that a loss has been incurred and the amount can be reasonably estimated. When only a range of probable loss can be estimated, the most probable amount in the range is accrued. If no amount within this range is a better estimate than any other amount within the range, the minimum amount in the range is accrued. We expense legal fees as incurred (see Note 6—Commitments and Contingencies).

*Income taxes*

Our income tax provision for interim periods is determined using an estimate of our annual effective tax rate adjusted for discrete items, if any, for relevant interim periods. We update our estimate of the annual effective tax rate each quarter and make cumulative adjustments if our estimated annual effective tax rate changes.

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Our quarterly tax provision and our quarterly estimate of our annual effective tax rate are subject to significant variations due to several factors including variability in predicting our pre-tax and taxable income and the mix of jurisdictions to which those items relate, relative changes of expenses or losses for which tax benefits are not recognized, how we do business, fluctuations in our stock price, and changes in law, regulations, and administrative practices. Our effective tax rate can be volatile based on the amount of pre-tax income. For example, the impact of discrete items on our effective tax rate is greater when pre-tax income is lower.

We assess the available positive and negative evidence to estimate whether we will generate sufficient future taxable income to use our existing deferred tax assets. We consider, among other things, our recent financial and operating results (three years of cumulative income and revenue growth during those periods), along with our forecasted growth rates, projected future taxable income, and prudent and feasible tax planning strategies. We perform sensitivity analyses to address how potential changes in significant assumptions would impact our ability to generate the minimum amount of taxable income required. We give the most weight to objective evidence related to our more recent financial results. Based upon the level of historical taxable income and projections for future taxable income, and planned tax strategies over the periods in which the deferred tax assets are deductible, we believe it is more likely than not that we will realize the benefits of these deduction differences, net of existing valuation allowances. However, it is possible that certain state tax credits could ultimately expire unused if estimates of future apportioned taxable income during the carryforward period are reduced. We will continue to monitor the need for a valuation allowance against our federal and state deferred tax assets on a quarterly basis.

We have not provided for U.S. income tax on certain foreign earnings because we intend to indefinitely reinvest these earnings outside the U.S. We have begun expansion of operations outside of the U.S. and have plans for additional expansion for which we have incurred and will continue to incur capital requirements. We have considered ongoing capital requirements of the parent company in the U.S.

### *Net income per share*

In 2016, we issued shares of our Blockchain Voting Series A Preferred Stock and our Voting Series B Preferred Stock (collectively the “preferred shares”). These shares are considered participating securities, and as a result, net income per share is calculated using the two-class method. Under this method, we give effect to preferred dividends and then allocate remaining net income attributable to our stockholders to both common shares and participating securities (based on the percentages outstanding) in determining net income per common share.

Basic net income per common share is computed by dividing net income attributable to common shares (after allocating between common shares and participating securities) by the weighted average number of common shares outstanding during the period.

Diluted earnings per share is computed by dividing net income attributable to common shares (after allocating between common shares and participating securities) by the weighted average number of common and potential common shares outstanding during the period (after allocating total dilutive shares between our common shares outstanding and our preferred shares outstanding). Potential common shares, comprising incremental common shares issuable upon the exercise of stock options and restricted stock awards are included in the calculation of diluted earnings per common share to the extent such shares are dilutive.

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The following table sets forth the computation of basic and diluted net income per common share for the periods indicated (in thousands, except per share data):

	Three months ended March 31,	
	2017	2016
Net income (loss) attributable to stockholders of Overstock.com, Inc.	\$ (5,903)	\$ 13,429
Net income (loss) per common share—basic:		
Net income (loss) attributable to common shares—basic	\$ (0.23)	\$ 0.53
Weighted average common shares outstanding—basic	25,290	25,280
Effect of dilutive securities:		
Stock options and restricted stock awards	—	10
Weighted average common shares outstanding—diluted	25,290	25,290
Net income (loss) attributable to common shares—diluted	\$ (0.23)	\$ 0.53

The following shares were excluded from the calculation of diluted shares outstanding as their effect would have been anti-dilutive (in thousands):

	Three months ended March 31,	
	2017	2016
Stock options and restricted stock units	199	907

#### Stock repurchase program

On May 5, 2015, our Board of Directors authorized a stock repurchase program under which we may repurchase shares of our outstanding common stock for up to \$25 million at any time through December 31, 2017. During Q1 2017, we repurchased approximately 604,000 shares of our common stock for an aggregate purchase price of \$10 million under the stock repurchase plan. All common shares repurchased were recognized as treasury stock.

#### Recently adopted accounting standards

In July 2015, the FASB issued ASU No. 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory*, which requires inventory to be measured at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. We implemented the provisions of ASU 2015-11 on January 1, 2017 on a prospective basis. The implementation of ASU 2015-11 did not impact our results of operations or cash flows.

In November 2015, the FASB issued ASU No. 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*, which requires that deferred tax assets and liabilities be classified as noncurrent in a classified balance sheet. We implemented the provisions of ASU 2015-17 on January 1, 2017 on a retrospective basis. Amounts related to the implementation for the year ended December 31, 2016 totaled approximately \$16.3 million and have been reclassified to long-term Deferred tax assets, net in our consolidated balance sheet. The implementation of ASU 2015-17 did not impact our results of operations or cash flows.

In March 2016, the FASB issued ASU No. 2016-09, *Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, which simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. We implemented the provisions of ASU 2016-09 on January 1, 2017 on a modified retrospective basis. We recognized \$9.4 million of additional deferred tax assets related to excess tax benefits through a cumulative effect adjustment in retained earnings as of January 1, 2017. We will recognize future excess tax benefits or tax deficiencies related to the vesting of stock-based compensation awards as income tax benefit or income tax expense. This is likely to cause volatility in our effective tax rate and income tax expense. As part of our implementation of this standard, we also made a policy election to recognize forfeitures as they occur under a modified retrospective approach which did not have a significant impact on our

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results of operations or cash flows. Our adoption of the other provisions of this standard, which will be applied prospectively, did not have a significant impact on our results of operations or cash flows.

### *Recently issued accounting standards not yet adopted*

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard becomes effective for us on January 1, 2018. Early adoption is permitted. In March 2016, the FASB issued ASU No. 2016-08, *Revenue from Contracts with Customers - Principal versus Agent Considerations*. This ASU clarifies the implementation guidance for principal versus agent considerations in ASU No. 2014-09 and provides indicators that assist in the assessment of control. ASU No. 2016-08 is also effective for us on January 1, 2018. In 2016, the FASB issued additional implementation guidance for the new revenue recognition standards. These standards permit the use of either the retrospective or cumulative effect transition method. We are continuing our assessment of our revenue streams and our project plan for implementing these standards. We have not yet selected a transition method nor have we completed our assessment of the effect that ASU No. 2014-09 will have on our consolidated financial statements and related disclosures. At this stage in our assessment, we have identified gross versus net revenue recognition (principal versus agent considerations) and the timing of revenue recognition (FOB shipping point versus FOB destination) as potentially significant issues in our analysis.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which, among other things, requires lessees to recognize most leases on their balance sheets related to the rights and obligations created by those leases. The new standard also requires new disclosures to help financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. The new standard becomes effective for us on January 1, 2019. Early adoption is permitted. The amendments in this update should be applied under a modified retrospective approach. We are evaluating the effect that ASU No. 2016-02 will have on our consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU No. 2016-04, *Liabilities - Extinguishment of Liabilities (Subtopic 405-20): Recognition of Breakage for Certain Prepaid Stored-Value Products*, which specifies how prepaid stored-value product liabilities, such as gift cards, should be derecognized. The standard, among other things, requires derecognition of such liabilities through expected breakage in proportion to the pattern of rights expected to be exercised by the holder, but only to the extent that it is probable that a significant reversal of the recognized breakage amount will not subsequently occur. The new standard becomes effective for us on January 1, 2018. Early adoption is permitted. The amendments in this update should be applied under a modified retrospective approach or a retrospective approach to each period presented. We are evaluating the effect that ASU No. 2016-04 will have on our consolidated financial statements and related disclosures.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)*, which provides guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows, thereby reducing the diversity in practice. The new standard becomes effective for us on January 1, 2018. The standard requires entities to apply this standard using the retrospective transition method to each period presented. The adoption of this standard will require that amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling beginning-of-period and end-of-period total amounts shown in the statement of cash flows. We do not expect that ASU No. 2016-18 will have a material impact on our consolidated financial statements and related disclosures.

In January 2017, the FASB issued ASU No. 2017-03, *Accounting Changes and Error Corrections (Topic 250) and Investments—Equity Method and Joint Ventures (Topic 323): Amendments to SEC Paragraphs Pursuant to Staff Announcements at the September 22, 2016 and November 17, 2016 EITF Meetings (SEC Update)*, which provides the SEC staff view that a registrant should evaluate ASUs that have not yet been adopted to determine the appropriate financial statement disclosures about the potential material effects of those ASUs on the financial statements when adopted. We do not expect that ASU 2017-03 will have a material impact on our consolidated financial statements and related disclosures.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles, Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, which simplifies the manner in which an entity should perform its annual, or interim, goodwill impairment test. The new standard becomes effective for us on January 1, 2020. Early adoption is permitted. We have not yet determined whether to early adopt. The amendments in this update should be applied on a prospective basis. We do not expect that ASU No. 2017-04 will have a material impact on our consolidated financial statements and related disclosures.

### 3. ACQUISITIONS, GOODWILL, AND ACQUIRED INTANGIBLE ASSETS

As part of our Medici blockchain and fintech technology initiatives, during 2015, a subsidiary of tØ.com, Inc. (formerly Medici, Inc.) entered into a purchase agreement to acquire Cirrus Technologies LLC, a financial technology firm. In connection with the Cirrus Technology acquisition, a subsidiary of tØ.com also entered into an agreement to purchase SpeedRoute LLC and all of the outstanding membership interests not already owned by tØ.com in Pro Securities LLC. Both SpeedRoute and Pro Securities were under common control with Cirrus Technologies LLC by a party that holds a noncontrolling interest in tØ.com. SpeedRoute and Pro Securities are FINRA-registered broker dealers.

This acquisition closed in two parts. The Cirrus Technologies acquisition closed in Q3 2015 and the membership interests in SpeedRoute and Pro Securities closed in Q1 2016 after receiving approval from FINRA. The total gross purchase price of this acquisition was \$29.7 million, consisting of approximately \$11.6 million in cash (which excludes \$2.2 million in cash acquired, primarily during Q1 2016) and 908,364 shares of Overstock's common stock valued at approximately \$18.1 million. The proceeds for the acquisition were financed by tØ.com through a note payable to Overstock that bears interest that approximates the Federal Funds Rate. The total purchase price has been allocated to the assets acquired and the liabilities assumed based on their respective fair values at the acquisition dates, with amounts exceeding fair value recorded as goodwill. We did not record significant deferred taxes related to the acquisition. The goodwill of the acquired business is deductible for tax purposes.

The acquisition of Cirrus Technologies and the acquisition of the membership interests of SpeedRoute and Pro Securities were negotiated and contemplated in conjunction with each other. As such, this was recognized as a single transaction. We estimated the fair value of the acquired assets based on Level 3 inputs, which were unobservable (see Note 2—Accounting Policies, *Fair value of financial instruments*). These inputs included our estimate of future revenues, operating margins, discount rates, royalty rates and assumptions about the relative competitive environment.

The fair values of the assets acquired and liabilities assumed at the acquisition dates are as follows (in thousands):

Purchase Price	Fair Value
Cash paid, net of cash acquired	\$ 9,353
Common stock issued	18,149
	<u>\$ 27,502</u>
<b>Allocation</b>	
Goodwill	\$ 11,914
Intangibles	16,000
Accounts receivable and other assets	2,565
Other liabilities assumed	(2,977)
	<u>\$ 27,502</u>

The following table details the identifiable intangible assets acquired at their fair value and useful lives as of March 31, 2017 (amounts in thousands):

Intangible Assets	Fair Value	Weighted Average Useful Life (years)
Technology and developed software	\$ 13,600	4.38
Customer relationships	1,900	—
Trade names	300	7.61
Other	200	
Total acquired intangible assets at the acquisition dates	<u>16,000</u>	
Less: accumulated amortization of acquired intangible assets	(6,308)	
Total acquired intangible assets, net	<u>\$ 9,692</u>	

The expense for amortizing acquired intangible assets in connection with this acquisition was \$925,000 and \$1.1 million for the three months ended March 31, 2017 and 2016, respectively.

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Acquired intangible assets primarily include technology, customer relationships and trade names. As described above, we determined the fair value of these assets using an income approach method to determine the present value of expected future cash flows for each identifiable intangible asset. This method was based on discount rates which incorporate a risk premium to take into account the risks inherent in those expected cash flows. The expected cash flows were estimated using the expectations of market participants.

The acquired assets, liabilities, and associated operating results were consolidated into our financial statements at the acquisition dates, or the dates on which we obtained control of the acquired assets or interests.

#### 4. ACCRUED LIABILITIES

Accrued liabilities consist of the following (in thousands):

	March 31, 2017	December 31, 2016
Accrued marketing expenses	\$ 20,627	\$ 26,358
Accounts payable accruals	16,865	17,229
Allowance for returns	13,537	18,176
Accrued compensation and other related costs	11,764	8,903
Accrued loss contingencies	9,155	9,173
Other accrued expenses	6,176	6,315
Accrued freight	3,293	10,062
Total accrued liabilities	<u>\$ 81,417</u>	<u>\$ 96,216</u>

#### 5. BORROWINGS

##### *U.S. Bank term loan and revolving loan agreement*

We are party to a loan agreement (as amended through March 30, 2017, the "Agreement") dated October 24, 2014 with U.S. Bank National Association and other banks in connection with the construction and long-term financing of our corporate headquarters (the "Project"). The Agreement provides for a senior secured real estate loan of \$45.8 million (the "Term Loan") that we used to finance a portion of the Project and a \$25.0 million senior secured revolving credit facility (the "Revolving Loan") to be used for working capital and other permitted purposes, including stock repurchases. The Term Loan and the Revolving Loan are both secured by the Project, our inventory and accounts receivable, substantially all of our deposit accounts and related assets. On January 1, 2017, the Term Loan was converted from a real estate loan used in the construction of our headquarters into an approximately 6.75-year loan due October 1, 2023. The aggregate principal amount converted was \$45.8 million. The Revolving Loan terminates June 30, 2020.

Amounts outstanding under the Term Loan carry an interest rate based on one-month LIBOR plus 2.00% or an Alternate Base Rate plus 1.00%. However, we have entered into interest rate swap agreements designed to fix our interest rate on the Term Loan at approximately 4.6% annually (see *Derivative financial instruments* in Note 2. Accounting Policies). We are required to make monthly payments of principal plus interest, with a balloon payment of all unpaid principal and interest on October 1, 2023. Amounts outstanding under the Revolving Loan will carry an interest rate based on LIBOR plus 2.00% or an Alternate Base Rate plus 1.00%.

Under the Agreement, we are required to maintain compliance as of the end of each calendar quarter with the following financial covenants:

- a fixed charge coverage ratio on a trailing 12-month basis of no less than 1.15 to 1.00;
- a cash flow leverage ratio on a trailing 12-month basis not greater than 2.75 to 1.00; and
- minimum liquidity of at least \$50.0 million.



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At March 31, 2017, we were in compliance with the financial covenants. The Term Loan includes customary events of default. The Term Loan and the Revolving Loan are cross-defaulted and cross-collateralized. In the event of a default, the default rate of interest would be 2.00% above the otherwise applicable rate.

At March 31, 2017, our outstanding balance on the Term Loan was \$45.6 million and we had no amounts outstanding under the Revolving Loan. Our liability under the Term Loan approximates fair value. Amounts outstanding under the Term Loan are presented net of discount and issuance costs in our consolidated balance sheets.

Future principal payments on the Term Loan as of March 31, 2017, are as follows (in thousands):

<b>Payments due by period:</b>	
2017 (Remainder)	\$ 843
2018	1,124
2019	1,124
2020	1,124
2021	1,124
Thereafter	40,234
	<u>\$ 45,573</u>

On March 30, 2017, we amended the Agreement to increase our borrowing capacity under the Revolving Loan from \$10 million to \$25 million, to modify the Cash Flow Leverage Ratio limitation to not to exceed 2.75 to 1.00 (previously 2.50 to 1.00) and to make other changes, including a modification of the definition of "Restricted Payment" to exclude stock repurchases of up to \$60 million from January 1, 2017 to June 30, 2018. The modification also extended the term of the Revolving Loan to June 30, 2020.

#### *U.S. Bank master lease agreement*

In November 2015, we entered into a Master Lease Agreement and a Financial Covenants Rider (collectively, the "Master Lease Agreement") with U.S. Bank Equipment Finance, a division of U.S. Bank National Association. ("Lessor"). Under the Master Lease Agreement we are able to sell certain assets (the "Leased Assets") to the Lessor and simultaneously lease them back for a period of 60 months. We are also able to finance certain software licenses (inclusive in the "Leased Assets") for a period of 60 months. We have the right to repurchase the Leased Assets and terminate the Master Lease Agreement twelve months following the initial term. We also have the right to repurchase the Leased Assets at the end of the term for \$1.00. Payments on the Master Lease Agreement are due monthly. During the three months ended March 31, 2017, we did not receive proceeds under the Master Lease Agreement. At March 31, 2017, our total outstanding liability under the Master Lease Agreement was \$14.3 million. The average interest rate for amounts outstanding under the Master Lease agreement was approximately 3.50%.

We have accounted for the Master Lease Agreement as a financing transaction and amounts owed are included in Finance obligations, current and non-current in the consolidated balance sheets. We recorded no gain or loss as a result of this transaction. The Master Lease Agreement allows for lease financing of up to \$20 million. Our liability under the Master Lease Agreement approximates fair value.

In connection with the Master Lease Agreement, and as long as any obligations remain outstanding under the Master Lease Agreement, we are required to maintain compliance with the same financial covenants as the Agreement with U.S. Bank described above. At March 31, 2017, we were in compliance with these financial covenants.

Future principal payments of finance obligations as of March 31, 2017, are as follows (in thousands):

[Table of Contents](#)**Payments due by period:**

2017 (Remainder)	\$	2,439
2018		3,356
2019		3,479
2020		3,502
2021		1,494
Thereafter		—
	\$	<u>14,270</u>

*U.S. Bank letters of credit*

At March 31, 2017 and December 31, 2016, letters of credit totaling \$355,000 and \$430,000, respectively, were issued on our behalf collateralized by compensating cash balances held at U.S. Bank, which are included in Restricted cash in the accompanying consolidated balance sheets.

*U.S. Bank commercial purchasing card agreement*

We have a commercial purchasing card (the “Purchasing Card”) agreement with U.S. Bank. We use the Purchasing Card for business purpose purchasing and must pay it in full each month. At March 31, 2017, \$904,000 was outstanding and \$4.1 million was available under the Purchasing Card. At December 31, 2016, \$811,000 was outstanding and \$4.2 million was available under the Purchasing Card.

**6. COMMITMENTS AND CONTINGENCIES***Summary of future minimum lease payments for all operating leases*

Minimum future payments under all operating leases as of March 31, 2017, are as follows (in thousands):

**Payments due by period**

2017 (Remainder)	\$	6,406
2018		6,686
2019		6,169
2020		4,056
2021		4,102
Thereafter		20,411
	\$	<u>47,830</u>

Rental expense for operating leases totaled \$2.4 million and \$3.4 million for the three months ended March 31, 2017 and 2016, respectively.

*Legal Proceedings and Contingencies*

From time to time, we are involved in litigation concerning consumer protection, employment, intellectual property and other commercial matters related to the conduct and operation of our business and the sale of products on our Website. In connection with such litigation, we may be subject to significant damages. In some instances other parties may have contractual indemnification obligations to us. However, such contractual obligations may prove unenforceable or non-collectible, and if we cannot enforce or collect on indemnification obligations, we may bear the full responsibility for damages, fees and costs resulting from such litigation. We may also be subject to penalties and equitable remedies that could force us to alter important business practices. Such litigation could be costly and time consuming and could divert or distract our management and key personnel from our business operations. Due to the uncertainty of litigation and depending on the amount and the timing, an unfavorable resolution of some or all of these matters could materially affect our business, results of operations, financial position, or cash flows.

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On September 23, 2009, SpeedTrack, Inc. sued us along with 27 other defendants in the United States District Court in the Northern District of California. We are alleged to have infringed a patent covering search and categorization software. We believe that certain third party vendors of products and services sold to us are contractually obligated to indemnify us, and we have tendered defense of the case to an indemnitor who accepted the defense. On April 21, 2016, the court entered an order partially dismissing the claims against us. On May 4, 2016, the plaintiff filed an amended complaint, and we have filed our answer. The nature of the loss contingencies relating to claims that have been asserted against us are described above. However, no estimate of the loss or range of loss can be made. We intend to vigorously defend this action and pursue our indemnification rights with our vendors.

On November 17, 2010, we were sued in the Superior Court of California, County of Alameda, by District Attorneys for the California Counties of Alameda, Marin, Monterey, Napa, Santa Clara, Shasta and Sonoma County, and the County of Santa Cruz later joined the suit. The district attorneys sought damages and an injunction under claims for violations of California consumer protection laws, alleging we made untrue or misleading statements concerning our pricing, price reductions, sources of products and shipping charges. The complaint asked for damages in the amount of not less than \$15.0 million. We tried the case in September 2013 before the judge of the court and made final arguments in December 2013. On January 3, 2014, the court issued a tentative ruling in favor of the District Attorneys, which became a final Statement of Decision on February 5, 2014. The decision provides for an injunction that prescribes disclosures necessary for certain types of price advertising and price reductions and imposes civil penalties of \$3,500 per day for practices from March 2006 through September 2008, and \$2,000 per day for September 2008 through September 2013, totaling \$6.8 million. The court issued a Final Judgment February 19, 2014 reflecting the Court's Statement of Decision. We have stipulated to Plaintiff's reimbursement of costs in the amount of \$111,500. We have appealed the decision and have secured a bond as required in the ruling in the amount of 150% of the penalty imposed in the matter until the ruling on the appeal. The appeal is briefed and oral argument was held on April 27, 2017. The nature of the loss contingencies relating to claims that have been asserted against us are described above. We intend to continue to vigorously pursue the appeal and defend this action.

On February 11, 2013, RPost Holdings, Inc., RPost Communications Limited, and RMail Limited, filed suit against us in the United States District Court in Eastern District of Texas for infringement of patents covering products and services that verify the delivery and integrity of email messages. We tendered defense of the case to an indemnitor who accepted the defense. The nature of the loss contingencies relating to claims that have been asserted against us are described above. However, no estimate of the loss or range of loss can be made. We intend to vigorously defend this action and pursue our indemnification rights with our vendors.

In June 2013, William French filed suit against us and 46 other defendants under seal in the Superior Court of the State of Delaware. The filing was unsealed on March 24, 2014. French brought the action on Delaware's behalf for violations of Delaware's unclaimed property laws and for recovery of the unredeemed gift card value allegedly attributable to Delaware residents. French's complaint alleges that we, and other defendants, knowingly refused to fulfill obligations under Delaware's Abandoned Property Law by failing to report and deliver unclaimed gift card funds to the State of Delaware, and knowingly made, used or caused to be made or used, false statements and records to conceal, avoid or decrease an obligation to pay or transmit money to Delaware in violation of the Delaware False Claims and Reporting Act. The complaint seeks an injunction, monetary damages (including treble damages) penalties, and attorney's fees and costs. We, along with others, filed motions to dismiss the case. The court dismissed one count, but allowed one count to remain. The case is in its discovery stages. We intend to vigorously defend this action. The nature of the loss contingencies relating to claims that have been asserted against us are described above.

On April 28, 2016, the State of South Dakota sued us along with three other defendants in the Sixth Judicial Circuit Court of South Dakota. South Dakota alleges that U.S. constitutional law should be revised to permit South Dakota to require out-of-state ecommerce websites to withhold and remit sales tax in South Dakota. We removed the case to the United States District Court which recently remanded the case back to the South Dakota state court. Pursuant to the statute, we would not be required to withhold and remit sales tax until there was verdict in favor of South Dakota which was then upheld by the highest applicable appellate court. The statute also would not require us to pay sales tax retroactively if we were to lose. The state court recently granted summary judgment in our favor, and South Dakota has filed to appeal the decision.

In September 2016, we received a letter from the District Attorney of Sonoma County, California who is acting as part of the Consumer Protection Divisions of the following counties in California: Sonoma, Alameda, Monterey, Napa, Solano, Fresno, Sacramento, Shasta, Santa Cruz, Butte, and Merced. The District Attorney alleges that certain plastic products on our site which are labeled as biodegradable, degradable, or decomposable constitute false advertising under California law. The District Attorney has requested documentation from us regarding this claim and we are cooperating. The nature of the loss

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contingencies relating to claims that have been asserted against us are described above. We intend to vigorously defend this matter and pursue our indemnification rights with our vendors.

We establish liabilities when a particular contingency is probable and estimable. At March 31, 2017, we have accrued \$9.2 million in light of probable and estimable liabilities, which is included in accrued liabilities in the Consolidated Balance Sheets. It is reasonably possible that the actual losses may exceed our accrued liabilities. We have other contingencies which are reasonably possible; however, the reasonably possible exposure to losses cannot currently be estimated.

## 7. INDEMNIFICATIONS AND GUARANTEES

During our normal course of business, we have made certain indemnities, commitments, and guarantees under which we may be required to make payments in relation to certain transactions. These indemnities include, but are not limited to, indemnities to various lessors in connection with facility leases for certain claims arising from such facility or lease, the environmental indemnity we entered into in favor of the lenders under our Loan Agreement with U.S. Bank and other banks, and indemnities to our directors and officers to the maximum extent permitted under the laws of the State of Delaware. The duration of these indemnities, commitments, and guarantees varies, and in certain cases, is indefinite. In addition, the majority of these indemnities, commitments, and guarantees do not provide for any limitation of the maximum potential future payments we could be obligated to make. As such, we are unable to estimate with any reasonableness our potential exposure under these items. We have not recorded any liability for these indemnities, commitments, and guarantees in the accompanying consolidated balance sheets. We do, however, accrue for losses for any known contingent liability, including those that may arise from indemnification provisions, when future payment is both probable and reasonably estimable.

## 8. STOCK-BASED AWARDS

We have equity incentive plans that provide for the grant to employees and board members of stock-based awards, including stock options and restricted stock. During the three months ended March 31, 2017, the Compensation Committee of the Board of Directors approved grants of 253,500 restricted stock awards to our officers, board members and employees. The restricted stock awards vest over three years at 33.3% at the end of the first year, 33.3% at the end of the second year and 33.3% at the end of the third year and are subject to the recipient's continuing service to us. At March 31, 2017, there were 585,851 unvested restricted stock awards that remained outstanding.

The cost of restricted stock awards is determined using the fair value of our common stock on the date of the grant, and compensation expense is either recognized on a straight line basis over the three-year vesting schedule or on an accelerated schedule when vesting of restricted stock awards exceeds a straight-line basis. The cumulative amount of compensation expense recognized at any point in time is at least equal to the portion of the grant date fair value of the award that is vested at that date. The weighted average grant date fair value of restricted stock awards granted during the three months ended March 31, 2017 was \$16.90.

Stock-based compensation expense related to restricted stock awards was \$940,000 and \$968,000 during the three months ended March 31, 2017 and 2016, respectively.

The following table summarizes restricted stock award activity during the three months ended March 31, 2017 (in thousands):

	Three months ended March 31, 2017	
	Units	Weighted Average Grant Date Fair Value
Outstanding—beginning of year	560	\$ 17.44
Granted at fair value	254	16.90
Vested	(143)	18.54
Forfeited	(85)	16.22
Outstanding—end of period	586	\$ 17.11

## 9. BUSINESS SEGMENTS

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Segment information has been prepared in accordance with ASC Topic 280 *Segment Reporting*. We determined our segments based on how we manage our business, which, in our view, consists primarily of our Retail and Medici businesses. Our Retail business consists of our Direct and Partner reportable segments. We use gross profit as the measure to determine our reportable segments because there is not discrete financial information available below gross profit for our Direct and Partner segments. As a result, our Medici business is not significant as compared to our Direct and Partner segments and is included in Other. Our Other segment consists of Medici. Although our Direct and Partner segments both relate to our Retail business, we do not combine these segments because they have dissimilar economic characteristics, such as gross profit margins. We do not allocate assets between our segments for our internal management purposes, and as such, they are not presented here. There were no significant inter-segment sales or transfers during the three months ended March 31, 2017 and 2016.

The following table summarizes information about reportable segments for the three months ended March 31, 2017 and 2016 (in thousands):

	Three months ended March 31,				
	Direct	Partner	Retail Total	Other	Total
<b>2017</b>					
Revenue, net	\$ 22,828	\$ 405,261	\$ 428,089	\$ 4,346	\$ 432,435
Cost of goods sold	20,963	321,297	342,260	3,268	345,528
Gross profit	\$ 1,865	\$ 83,964	\$ 85,829	\$ 1,078	\$ 86,907
Operating expenses			84,538	4,682	89,220
Interest and other income (expense), net (1)			102	(4,411)	(4,309)
Pre-tax income (loss)			1,393	(8,015)	(6,622)
Provision (benefit) for income taxes			889	(1,229)	(340)
Net income (loss) (2) (3) (4)			<u>\$ 504</u>	<u>\$ (6,786)</u>	<u>\$ (6,282)</u>
<b>2016</b>					
Revenue, net	\$ 26,651	\$ 384,269	\$ 410,920	\$ 2,757	\$ 413,677
Cost of goods sold	25,406	309,297	334,703	1,667	336,370
Gross profit	\$ 1,245	\$ 74,972	\$ 76,217	\$ 1,090	\$ 77,307
Operating expenses			55,380	4,114	59,494
Interest and other income (expense), net (1)			4,245	—	4,245
Pre-tax income (loss)			25,082	(3,024)	22,058
Provision (benefit) for income taxes			10,045	(1,081)	8,964
Net income (loss) (2) (3) (4)			<u>\$ 15,037</u>	<u>\$ (1,943)</u>	<u>\$ 13,094</u>

(1) — The above amounts exclude intercompany transactions eliminated in consolidation, which consist primarily of interest. These amounts were \$306,000 and \$155,000 for the three months ended March 31, 2017 and 2016, respectively.

(2) — Net income presented for segment reporting purposes is before any adjustments attributable to noncontrolling interests.

(3) — The above amounts include Retail depreciation and amortization expense of \$7.4 million and \$6.2 million for the three months ended March 31, 2017 and 2016, respectively.

(4) — The above amounts include Other depreciation and amortization expense of \$1.2 million and \$1.1 million for the three months ended March 31, 2017 and 2016, respectively.

For additional information regarding our non-GAAP financial measures, please see Item 2 of Part I, Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates.

Our Direct segment includes revenues, direct costs, and cost allocations associated with sales of inventory we own. Costs for this segment include product costs, freight, warehousing and fulfillment costs, credit card fees and customer service costs.

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Our Partner segment includes revenues, direct costs and cost allocations associated with sales of inventory owned by our partners. Costs for this segment include product costs, outbound freight and fulfillment costs, credit card fees and customer service costs.

For the three months ended March 31, 2017 and 2016, substantially all of our sales revenues were attributable to customers in the United States. At March 31, 2017 and December 31, 2016, substantially all of our fixed assets were located in the United States.

### **10. BROKER DEALERS**

As part of our Medici blockchain and fintech technology initiatives, we hold a controlling interest in each of two broker dealers, SpeedRoute LLC ("SpeedRoute") and Pro Securities LLC ("Pro Securities"), which we acquired in January 2016 (see Note 3—Acquisitions, Goodwill, and Acquired Intangible Assets).

SpeedRoute is an electronic, agency-only FINRA-registered broker dealer that provides connectivity for its customers to U.S. equity exchanges as well as off-exchange sources of liquidity such as dark pools. All of SpeedRoute's customers are registered broker dealers. SpeedRoute does not hold, own or sell securities.

Pro Securities is a FINRA-registered broker dealer that owns and operates the Pro Securities alternative trading system ("ATS"), which is registered with the SEC. An ATS is a trading system that is not regulated as an exchange, but is a licensed venue for matching buy and sell orders. The Pro Securities ATS is a closed system available only to its broker dealer subscribers. Pro Securities does not accept orders from non-broker dealers, nor does it hold, own or sell securities.

SpeedRoute and Pro Securities are subject to the SEC's Uniform Net Capital Rule (SEC Rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1 and that equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1. At March 31, 2017, SpeedRoute had net capital of \$654,608, which was \$516,472 in excess of its required net capital of \$138,136 and SpeedRoute's net capital ratio was 3.2 to 1. At March 31, 2017, Pro Securities had net capital of \$56,568, which was \$51,568 in excess of its required net capital of \$5,000 and Pro Securities net capital ratio was 0.31 to 1.

SpeedRoute and Pro Securities did not have any securities owned or securities sold, not yet purchased at March 31, 2017.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Special Cautionary Note Regarding Forward-Looking Statements

*This Report on Form 10-Q and the documents incorporated herein by reference, as well as our other public documents and statements our officers and representatives may make from time to time, contain 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 statements are therefore entitled to the protection of the safe harbor provisions of these laws. These forward-looking statements involve risks and uncertainties, and relate to future events or our future financial or operating performance. The forward-looking statements include all statements other than statements of historical fact, including, without limitation, all statements regarding:*

- *the anticipated benefits and risks of our business and plans;*
- *our beliefs regarding our ability to attract and retain customers in a cost-efficient manner;*
- *the anticipated effectiveness of our marketing;*
- *our future operating and financial results, including any projections of revenue, profits or losses, contribution, technology expense, general and administrative expense, cash flow, capital expenditures or other financial measures or amounts or non-GAAP financial measures or amounts or anticipated changes in any of them;*
- *our beliefs and expectations regarding the adequacy of our facilities, including leased and third party operated warehouse facilities;*
- *our belief that we can maintain compliance with the requirements of our credit facility;*
- *our future capital requirements and our ability to satisfy our capital needs;*
- *the adequacy of our liquidity;*
- *our ability to retire or refinance the debt we have or incur in the future;*
- *the competition we currently face and anticipate;*
- *the effects of current and future government regulation;*
- *our expectations for our international sales efforts and the anticipated results of our international operations;*
- *our plans and expectations regarding Supplier Oasis and our efforts to provide multi-channel fulfillment services;*
- *our plans and expectations regarding our insurance product offerings and consumer finance offerings;*
- *our plans for further changes to our business;*
- *our beliefs regarding current or future litigation or regulatory actions;*
- *our beliefs regarding the costs and benefits of our "spend and defend" policy under which we generally refuse to settle abusive patent suits brought against us;*
- *our beliefs and expectations regarding existing and future tax laws and related laws and the application of those laws to our business including the results of tax assessments we receive periodically;*
- *our beliefs regarding the adequacy of our insurance coverage;*
- *our beliefs regarding the adequacy and anticipated functionality of our infrastructure, including our backup facilities and beliefs regarding the adequacy of our disaster planning and our ability to recover from a disaster or other interruption of our ability to operate our website;*
- *our beliefs regarding our cybersecurity efforts and measures and our efforts to prevent data breaches and the costs we will incur in our ongoing efforts to avoid interruptions to our product offerings and other business processes from cyber attacks and from data breaches;*
- *our ability to maintain or improve upon customer service levels that we and our customers consider acceptable;*
- *our beliefs regarding the adequacy of our order processing systems and our fulfillment and distribution capabilities;*
- *our expectations regarding the costs and benefits of our other businesses, innovations and projects including our car listing service, our Worldstock Fair Trade offerings, our Main Street Revolution offerings and our ecommerce marketplace channel offerings;*
- *our expectations regarding the costs and benefits of various programs we offer, including Club O and programs pursuant to which we may offer free or discounted participation in Club O or other programs we offer to members of the United States Armed Forces and/or to full-time, post-secondary students or others, and including our community site and our public service pet adoption program;*

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- *our expectations regarding the costs, benefits and risks of our efforts to develop blockchain and financial technology and of the costs, benefits and risks of our acquisitions of the assets and operations of a financial technology company and two registered broker dealers affiliated with the financial technology business;*
- *our expectations regarding the risks and benefits of our recent rights offering of shares of our Blockchain Voting Series A Preferred Stock and our Voting Series B Preferred Stock;*
- *our expectations regarding the costs and benefits of modifying our marketing efforts to deemphasize coupons;*
- *our belief that we and our partners will be able to maintain inventory levels at appropriate levels despite the seasonal nature of our business;*
- *our expectations regarding our emphasis on home and garden product offerings and our attempts to brand ourselves as a home and garden shopping destination;*
- *our belief that our sales through other ecommerce marketplace channels will be successful; and*
- *our belief that we can successfully offer and sell a constantly changing mix of products and services.*

*Further, in some cases, you can identify forward-looking statements by terminology such as may, will, could, should, likely, expect, plan, seek, intend, anticipate, project, believe, estimate, predict, potential, goal, strategy, future or continue, the negative of such terms or other comparable terminology. These statements are only predictions. Actual events or results may differ materially from those contemplated by our forward-looking statements for a variety of reasons, including among others:*

- *the potential effects on our financial results of new accounting standards we will be required to adopt no later than January 1, 2018, relating to revenue recognition;*
- *changes in U.S. and global economic conditions and consumer spending;*
- *any downturn in the U.S. housing industry;*
- *world events;*
- *the rate of growth of the Internet and online commerce, and the occurrence of any event that would discourage or prevent consumers from shopping online or via mobile apps;*
- *our failure to maintain our existing relationships with our fulfillment partners or build new relationships with fulfillment partners on acceptable terms;*
- *our failure to maintain optimal levels of product quality, quantity and assortment or to attract sufficient consumer interest in our product offerings;*
- *any claims we may face regarding the quality, safety or labelling of the products we offer;*
- *modifications we may make to our business model from time to time, including aspects relating to our product mix and the mix of direct/partner sourcing of the products we offer;*
- *the mix of products purchased by our customers and changes to that mix;*
- *any claims we may face regarding cyber security issues or data breaches or difficulties we encounter regarding Internet or other infrastructure or communications impairment problems or the costs of preventing or responding to any such problems;*
- *any problems with or affecting our payment card processors, including cyber-attacks, Internet or other infrastructure or communications impairment or other events that could interrupt the normal operation of the payment card processors or any difficulties we may have maintaining compliance with the rules of the payment card processors;*
- *any substantial decrease in our liquidity, whether as a result of stock repurchases we may make or as a result of our business operations;*
- *problems with or affecting the facility where substantially all of our computer and communications hardware is located or other problems that result in the unavailability of our Website or reduced performance of our transaction systems;*
- *difficulties we may have in responding to technological changes;*
- *losses we may incur due to fraud or our inability to prevent fraud;*
- *claims or other problems we may encounter as a result of the listing or sale on our website of pirated, counterfeit or illegal items;*
- *difficulties we may have financing our operations or our expansion with either internally generated funds or external sources of financing;*
- *any failure by us to maintain compliance with the requirements of our credit facility;*
- *any environmental liabilities we may incur relating to the real estate we recently purchased for our new corporate headquarters;*
- *any failure of any of our product or service offerings outside of our main shopping website offerings to provide the benefits we expect from them;*



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- *any difficulties we may encounter as a result of our reliance on numerous third parties that we do not control for the performance of critical functions material to our business;*
- *any difficulties we may encounter in connection with the rapid shift of ecommerce and online payments to mobile and multi-channel commerce and payments;*
- *the extent to which we may owe income or sales taxes or may be required to collect sales taxes or report sales or to modify our business model in order to avoid being required to collect sales taxes or report sales or avoid the application of other types of taxes, and any liabilities that may ultimately be imposed upon us for not having collected sales tax in jurisdictions in which we believe we had no obligation to do so;*
- *any losses or issues we may encounter as a consequence of accepting or holding bitcoin or other cryptocurrencies, whether as a result of regulatory, tax or other legal issues, technological issues, value fluctuations, lack of widespread adoption of bitcoin or other cryptocurrencies as an acceptable medium of exchange or otherwise;*
- *increasing competition, including competition from well-established competitors including Amazon.com, competition from competitors based in China or elsewhere, competition from well-funded companies willing to incur substantial losses in order to build market share, and from others including competitors with business models that may include delivery capabilities that we may be unable to match;*
- *difficulties with the management of our growth and any periods in which we fail to grow in accordance with our plans;*
- *difficulties we may encounter in connection with our efforts to emphasize our home and garden product offerings and to brand ourselves as a home and garden shopping destination, including the risk that our sales of home and garden product offerings could decrease substantially as a result of a significant downturn in some or all of the U.S. housing market;*
- *fluctuations in our operating results;*
- *difficulties we may encounter in connection with our efforts to expand internationally, including claims we may face and liabilities we may incur in connection with those efforts;*
- *difficulties we may encounter in connection with our efforts to offer services to our customers outside of our retail ecommerce business;*
- *difficulties, including expense and any operational or regulatory issues we may encounter in connection with the integration or operation of the assets and operations of the financial technology company and two registered broker dealers affiliated with the financial technology business that we acquired;*
- *technical, operational, regulatory or other difficulties we may encounter with our Medici blockchain and financial technology initiatives, including any difficulties we may have marketing any products or services Medici may offer, whether due to lack of market acceptance or as a result of competition from any of the numerous competitors seeking to develop competing technologies or systems or as a result of patents that may be granted to other companies or persons;*
- *any impairment we may recognize with respect to assets or businesses that we have acquired or may acquire, including with respect to our investments in companies that are in startup or development stages;*
- *any liability or expense we may incur as a result of our investments in other companies, whether as a result of regulatory issues or otherwise;*
- *adverse results in legal proceedings, investigations or other claims;*
- *any difficulties we may have optimizing our warehouse operations;*
- *the risks of inventory management and seasonality, particularly with inventory subject to rapid price declines;*
- *the cost and availability of traditional and online advertising, the rapid changes in the online advertising business and the longer-term changes in the traditional advertising business, and the results of our various brand building and marketing campaigns;*
- *risks that the amount of deferred tax assets we consider realizable could be reduced if estimates of future taxable income during the carryforward period are reduced; and*
- *the other risks described in this report or in our other public filings.*

*In evaluating all forward-looking statements, you should specifically consider the risks outlined above and in this Report, especially under the headings “Risk Factors,” “Legal Proceedings,” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” These factors may cause our actual results to differ materially from those contemplated by any forward-looking statement. Although we believe that our expectations reflected in the forward-looking statements are reasonable, we cannot guarantee or offer any assurance of future results, levels of activity, performance or achievements or other future events.*

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*Our forward-looking statements contained in this report speak only as of the date of this report and, except as required by law, we undertake no obligation to update forward-looking statements to reflect events or circumstances occurring after the date of this report or any changes in our expectations or any change in any events, conditions or circumstances on which any of our forward-looking statements are based.*

### **Available Information**

Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and other reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available free of charge through the Investor Relations section of our main website [www.overstock.com](http://www.overstock.com) as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission. Our website and the information contained therein or connected thereto are not a part of or incorporated into this Quarterly Report on Form 10-Q.

### **Overview**

We are an online retailer and advancer of blockchain technology. Through our online retail business we offer a broad range of price-competitive brand name, non-brand name and closeout products, including furniture, home decor, bedding and bath, housewares, jewelry and watches, apparel and designer accessories, health and beauty products, electronics and computers, and sporting goods, among other products. We also sell hundreds of thousands of best seller and current run books, magazines, CDs, DVDs and video games ("BMMG"). We sell these products and services through our Internet websites located at [www.overstock.com](http://www.overstock.com), [www.o.co](http://www.o.co) and [www.o.biz](http://www.o.biz) (referred to collectively as the "Website"). Although our three websites are located at different domain addresses, the technology and equipment and processes supporting the Website and the process of order fulfillment described herein are the same for all three websites.

In late 2014, we began working on initiatives to develop and advance blockchain technology, which we refer to collectively as Medici, and which includes our majority-owned subsidiary tO.com, Inc. (formerly Medici, Inc.). As part of our Medici initiatives, we have formed a wholly-owned subsidiary Medici Ventures, Inc. and acquired a majority interest in a financial technology company and two related registered broker dealers. We have also made minority investments in several blockchain technology companies. In 2015, we were the first public company to issue a private security using blockchain technology and in December 2016, as a successful demonstration of our technology, we issued publicly traded blockchain preferred shares of Overstock.com, Inc.

Our company, based near Salt Lake City, Utah, was founded in 1997. We launched our initial website in March 1999 and were re-incorporated in Delaware in 2002. As used herein, "Overstock," "Overstock.com," "O.co," "we," "our" and similar terms include Overstock.com, Inc. and our majority-owned subsidiaries, unless the context indicates otherwise.

### **Our Business**

In our retail business, we deal primarily in price-competitive, new and replenishable merchandise and use the Internet to aggregate both supply and demand to create an efficient marketplace for selling these products. We provide our customers an opportunity to conveniently shop for a broad range of price-competitive products. We continually add new, and sometimes limited, inventory to our Website in order to create an atmosphere that encourages customers to visit frequently and purchase products before our inventory sells out. We provide suppliers with access to a large customer base and convenient services for order fulfillment, customer service, returns handling, and other services. The merchandise offered on our Website is from a variety of sources including well-known, brand-name manufacturers. We have organized our retail business (sales of product offered through the Shopping Section of our Website) into two principal segments—a "direct" business and a "partner" business. Consumers and businesses are able to access and purchase our products 24 hours a day from the convenience of a computer, Internet-enabled mobile telephone or other Internet-enabled device. Our team of customer service representatives assists customers by telephone, instant online chat and e-mail. We also derive revenue from other businesses advertising products or services on our Website. Our sales are primarily to customers located in the United States.

Our retail direct business includes sales made to individual consumers and businesses from our owned inventory and that are fulfilled primarily from our warehouse in Salt Lake City, Utah.

For our retail partner business, we sell merchandise from manufacturers, distributors and other suppliers ("partners") primarily through our Website. We are considered to be the primary obligor for the majority of these sales transactions and we record revenue from the majority of these sales transactions on a gross basis. Our use of the term "partner" does not mean that

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we have formed any legal partnerships with any of our partners. These third party partners generally perform the same fulfillment operations as our warehouses, such as order picking and shipping; however, we handle returns and customer service related to substantially all orders placed through our Website. Revenue generated from sales on our Shopping site from both the direct and partner businesses is recorded net of returns, coupons and other discounts.

Both direct and partner revenues are seasonal, with revenues historically being the highest in the fourth quarter, which ends December 31, reflecting higher consumer holiday spending. We anticipate this will continue for the foreseeable future. To the extent possible we maintain supplier relationships, and seek new supplier relationships, for both our direct and partner businesses, and also use our working capital, to ensure a continuous allotment of product offerings for our customers. Because a portion of our product offerings are closeout merchandise, some of our suppliers cannot supply products to us on a continuous basis.

### *Medici business*

Our Medici business initiatives leverage the security, transparency and immutability of cryptographically protected, distributed ledgers, such as the blockchain, and are focused on solving important problems, including financial transaction issues, particularly in the area of securities settlement. Through our wholly-owned subsidiary, Medici Ventures, Inc., we hold minority investments in several technology companies which, at March 31, 2017, included PeerNova, Bitt, IdentityMind, Factom, SettleMint and Ripio, whose focus include commercial blockchain applications, digital currency solutions, Know Your Customer and Anti Money Laundering compliance, voting and land. Medici Ventures, Inc.'s primary business is its majority interest in tØ.com, Inc., which includes a financial technology company and two related registered broker dealers.

As described further in Item 1 of Part I, "Financial Statements (Unaudited)"-Note 9. Business Segments, we determined our segments based on how we manage our business, which, in our view, consists primarily of our Retail and Medici businesses. As described above, our Retail business consists of our Direct and Partner reportable segments. We use gross profit as the measure to determine our reportable segments because there is not discrete financial information available below gross profit for our Direct and Partner segments. As a result, our Medici business is not significant as compared to our Direct and Partner segments and is included in Other. Our Other segment consists of Medici.

### **Executive Commentary**

*This executive commentary is intended to provide investors with a view of our business through the eyes of our management. As an executive commentary, it necessarily focuses on selected aspects of our business. This executive commentary is intended as a supplement to, but not a substitute for, the more detailed discussion of our business included elsewhere herein. Investors are cautioned to read our entire "Management's Discussion and Analysis of Financial Condition and Results of Operations," as well as our interim and audited financial statements, and the discussion of our business and risk factors and other information included elsewhere or incorporated in this report. This executive commentary includes forward-looking statements, and investors are cautioned to read "Special Cautionary Note Regarding Forward-Looking Statements."*

Revenues in Q1 2017 increased 5% compared to Q1 2016. The growth in revenue was primarily due to a 10% increase in average order size. This increase was partially offset by increased promotional activities, including coupons and site sales (which we recognize as a reduction of revenue) due to our driving a higher proportion of our sales using such promotions. In addition, the percentage of revenue we defer from orders taken but not delivered was higher due to increased sales volume at quarter end. These decreases to revenue were partially offset by a decrease in Club O Rewards earned due to discontinuing rewards on the Club O Silver program in Q4 2016 and a decrease in returns. Our average order size has increased in recent years due primarily to a sales mix shift into home and garden products. We are uncertain how long this trend will continue.

Gross profit in Q1 2017 increased 12% compared to Q1 2016 primarily as a result of revenue growth. Gross margin increased to 20.1% in Q1 2017 compared to 18.7% in Q1 2016. Gross margin increased due a continued shift in sales mix into higher margin home and garden products, but that increase was partially offset by increased promotional activities.

Sales and marketing expenses as a percentage of revenue increased from 7.6% to 8.7% during Q1 2017 as compared to Q1 2016, primarily due to increased spending in the sponsored search marketing channels and increased staff related costs.

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As a result of these factors, our contribution was virtually flat in Q1 2017 compared to Q1 2016 (see Non-GAAP Financial Measures below for a reconciliation of Contribution to Gross Profit). Contribution margin was 11.6% in Q1 2017 compared to 12.1% in Q1 2016.

Technology expenses in Q1 2017 increased \$3.3 million compared to Q1 2016, primarily due to an increase in staff related costs of \$1.0 million, an increase of \$958,000 in technology licenses and maintenance, and an increase in depreciation of \$902,000.

General and administrative expenses in Q1 2017 increased \$762,000 compared to Q1 2016, primarily due to an increase of \$2.0 million in staff related costs, partially offset by a \$438,000 decrease in legal fees.

During Q1 2017, we recognized an impairment charge of \$4.5 million in Other income (expense), net related to a cost method investment.

We continue to seek opportunities for growth, in our retail business and through our Medici blockchain and financial technology initiatives and through other means. As a result of these initiatives, we may continue to incur additional expenses or make investments in, or acquisitions of other technologies and businesses. We also anticipate that our Medici initiatives will incur losses in the near term. These losses, additional expenses, acquisitions or investments may be material, and, coupled with the seasonality of our business, may lead to reduced consolidated income or losses in some periods, and to reduced liquidity. Additionally, we may recognize additional impairment charges from our investments. We are considering other alternatives for Medici, including a divestiture or raising capital.

During Q1 2017, we repurchased approximately 604,000 shares of our common stock for an aggregate purchase price of \$10.0 million under our stock repurchase plan. All common shares repurchased were recognized as treasury stock. We may repurchase additional shares in the future.

The balance of our Management's Discussion and Analysis of Financial Condition and Results of Operations provides further information about the matters discussed above and other important matters affecting our business.

**Results of Operations**

The following table sets forth our results of operations expressed as a percentage of total net revenue:

	Three months ended March 31,	
	2017	2016
	(as a percentage of total net revenue)	
Revenue, net		
Direct	5.3 %	6.4 %
Partner and other	94.7	93.6
Total net revenue	100.0	100.0
Cost of goods sold		
Direct	4.8	6.1
Partner and other	75.1	75.2
Total cost of goods sold	79.9	81.3
Gross profit	20.1	18.7
Operating expenses:		
Sales and marketing	8.7	7.6
Technology	6.7	6.2
General and administrative	5.2	5.3
Litigation settlement	—	(4.7)
Total operating expenses	20.6	14.4
Operating income (loss)	(0.5)	4.3
Other income (expense), net	(0.9)	1.0
Income (loss) before income taxes	(1.5)	5.3
Provision (benefit) for income taxes	(0.1)	2.2
Consolidated net income (loss)	(1.5)%	3.2 %

**Comparisons of Three Months Ended March 31, 2017 to Three Months Ended March 31, 2016**

**Revenue**

The following table reflects our net revenues for the three months ended March 31, 2017 and 2016 (in thousands):

	Three months ended March 31,		\$ Change	% Change
	2017	2016		
Revenue, net				
Direct	\$ 22,828	\$ 26,651	\$ (3,823)	(14.3)%
Partner and other	409,607	387,026	22,581	5.8
Total revenue, net	\$ 432,435	\$ 413,677	\$ 18,758	4.5 %

The primary reason for increased total net revenue for the three months ended March 31, 2017, as compared to the same period in 2016, was a 10% increase in average order size. This increase was partially offset by increased promotional activities, including coupons and site sales (which we recognize as a reduction of revenue) due to our driving a higher proportion of our sales using such promotions. In addition, the percentage of revenue we defer from orders taken but not delivered was higher due to increased sales volume at quarter end. These decreases to revenue were partially offset by a decrease in Club O Rewards earned due to discontinuing rewards on the Club O Silver program in Q4 2016 and a decrease in returns. Our average order size has increased in recent years due primarily to a sales mix shift into home and garden products. We are uncertain how long this trend will continue.

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The primary reason for decreased direct revenue for the three months ended March 31, 2017, as compared to the same period in 2016, was a decrease in sales of jewelry & watches and increased promotional activities, including coupons and site sales (which we recognize as a reduction of revenue). These decreases to direct revenue were partially offset by a decrease in Club O Rewards earned due to discontinuing rewards on the Club O Silver program in Q4 2016.

The increase in partner revenue for the three months ended March 31, 2017, as compared to the same period in 2016, was primarily due to an increase in sales of home and garden products. This increase was partially offset by deferring a higher percentage of revenue from orders taken but not delivered due to increased sales volume at quarter end and increased promotional activities, including coupons and site sales (which we recognize as a reduction of revenue). These decreases to partner revenue were partially offset by a decrease in returns and a decrease in Club O Rewards earned due to discontinuing rewards on the Club O Silver program in Q4 2016.

We continue to seek increased participation in our Club O loyalty program, including, in certain instances, by increasing Club O Rewards to our Club O members in lieu of coupons we offer to all customers. For additional information regarding our Club O loyalty program see Item 1 of Part I, "Financial Statements (Unaudited)"—Note 2. Accounting Policies, *Club O loyalty program*.

The shift of business from direct to partner (or vice versa) is an economic result based on the economics of each particular product offering at the time and we generally do not have particular goals for an "appropriate" mix or percentage for the size of either. Although we have experienced a trend from direct revenue to partner revenue in recent years, we believe that the mix of the business between direct and partner remains consistent with our strategic objectives for our business model in the current economic environment and we do not currently foresee any material shifts in this trend.

The products and product lines we offer, and their respective percentages of our revenue, are based on many factors including customer demand, our marketing efforts, promotional pricing, joint-marketing offered by our suppliers, the types of inventory we are able to obtain and the number of SKUs we offer. These factors change frequently and can affect the mix of the product lines we sell. We have experienced a trend toward our home and garden category in recent years and we have recently focused our marketing and branding efforts towards our home and garden product line. We are also working to increase the number of SKUs we offer. While we do not currently expect any material shifts in our product line mix, the relative amounts of the product lines we sell, and the revenue we earn from those product lines, is generally an economic result of the factors described above, which may change from time to time.

International sales were less than 2% of total net revenues for the three months ended March 31, 2017 and 2016.

*Change in estimate of average transit times (days)*

Revenue related to merchandise sales is recognized upon delivery to our customers. As we ship high volumes of packages through multiple carriers, it is not practical for us to track the actual delivery date of each shipment. Therefore, we use estimates to determine which shipments are delivered and, therefore, recognized as revenue at the end of the period. Our delivery date estimates are based on average shipping transit times. We review and update our estimates on a quarterly basis based on our actual transit time experience. However, actual shipping times may differ from our estimates.

The following table shows the effect that hypothetical changes in the estimate of average shipping transit times would have had on the reported amount of revenue and pre-tax income for the three months ended March 31, 2017 (in thousands):

Change in the Estimate of Average Transit Times (Days)	Three Months Ended March 31, 2017	
	Increase (Decrease) Revenue	Increase (Decrease) Pre-Tax Income
2	\$ (21,174)	\$ (2,616)
1	\$ (8,802)	\$ (1,089)
As reported	As reported	As reported
-1	\$ 5,818	\$ 720
-2	\$ 10,847	\$ 1,341

See "Executive Commentary" above for additional discussion regarding revenue.

**Gross profit and gross margin**

Our overall gross margins fluctuate based on our sales volume mix between our direct business and partner business; changes in supplier cost and / or sales price; competitive pricing; inventory management decisions within the direct business; sales coupons and promotions; product mix of sales; and operational and fulfillment costs.

The following table reflects our net revenues, cost of goods sold and gross profit for the three months ended March 31, 2017 and 2016 (in thousands):

	Three months ended March 31,		\$ Change	% Change
	2017	2016		
Revenue, net				
Direct	\$ 22,828	\$ 26,651	\$ (3,823)	(14.3)%
Partner and other	409,607	387,026	22,581	5.8
Total net revenue	<u>\$ 432,435</u>	<u>\$ 413,677</u>	<u>\$ 18,758</u>	<u>4.5 %</u>
Cost of goods sold				
Direct	\$ 20,963	\$ 25,406	\$ (4,443)	(17.5)%
Partner and other	324,565	310,964	13,601	4.4
Total cost of goods sold	<u>\$ 345,528</u>	<u>\$ 336,370</u>	<u>\$ 9,158</u>	<u>2.7 %</u>
Gross Profit				
Direct	\$ 1,865	\$ 1,245	\$ 620	49.8 %
Partner and other	85,042	76,062	8,980	11.8
Total gross profit	<u>\$ 86,907</u>	<u>\$ 77,307</u>	<u>\$ 9,600</u>	<u>12.4 %</u>

Gross margins for the past five quarterly periods and fiscal year ending 2016 were:

	Q1 2016	Q2 2016	Q3 2016	Q4 2016	FY 2016	Q1 2017
Direct	4.7%	6.2%	2.8%	7.3%	5.2%	8.2%
Partner and other	19.7%	19.0%	19.1%	19.2%	19.2%	20.8%
Combined	18.7%	18.2%	18.2%	18.6%	18.4%	20.1%

Gross profit in Q1 2017 increased 12% compared to Q1 2016 primarily as a result of revenue growth. Gross margin increased to 20.1% in Q1 2017 compared to 18.7% in Q1 2016. The increase in gross margin was primarily due to a continued shift in sales mix into higher margin home and garden products, partially offset by increased promotional activities, including coupons and site sales (which we recognize as a reduction of revenue) due to our driving a higher proportion of our sales using such promotions.

The 350 basis point increase in direct gross margin for the three months ended March 31, 2017, as compared to the same period in 2016, was primarily due to a shift in sales mix into higher margin home and garden products, partially offset by increased promotional activities, including coupons and site sales.

The 111 basis point increase in partner gross margin for the three months ended March 31, 2017, as compared to the same period in 2016 was primarily due to a continued shift in sales mix into higher margin home and garden products, partially offset by increased promotional activities, including coupons and site sales.

Cost of goods sold includes stock-based compensation expense of \$49,000 and \$51,000 for the three months ended March 31, 2017 and 2016, respectively.

See “Executive Commentary” above for additional discussion.

**Fulfillment costs**

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Fulfillment costs include all warehousing costs, including fixed overhead and variable handling costs (excluding packaging costs), as well as credit card fees and customer service costs, all of which we include as costs in calculating gross margin. We believe that some companies in our industry, including some of our competitors, account for fulfillment costs within operating expenses, and therefore exclude fulfillment costs from gross margin. As a result, our gross margin may not be directly comparable to others in our industry.

The following table has been included to provide investors additional information regarding our classification of fulfillment costs, gross profit and margin, thus enabling investors to better compare our gross margin with others in our industry (in thousands):

	Three months ended March 31,			
	2017		2016	
Total revenue, net	\$ 432,435	100%	\$ 413,677	100%
Cost of goods sold				
Product costs and other cost of goods sold	326,803	76%	318,074	77%
Fulfillment and related costs	18,725	4%	18,296	4%
Total cost of goods sold	345,528	80%	336,370	81%
Gross profit	\$ 86,907	20%	\$ 77,307	19%

Fulfillment costs as a percentage of sales may vary due to several factors, such as our ability to manage costs at our warehouses, significant changes in the number of units received and fulfilled, the extent to which we use third party fulfillment services and warehouses, and our ability to effectively manage customer service costs and credit card fees. Fulfillment and related costs increased slightly during the three months ended March 31, 2017 as compared to the same periods in 2016.

See “Gross profit” above for additional discussion.

## Operating expenses

### *Sales and marketing expenses*

We use a variety of methods to target our consumer audience, including online campaigns, such as advertising through keywords, product listing ads, display ads, search engines, affiliate marketing programs, social coupon websites, portals, banners, e-mail, direct mail and viral and social media campaigns. We also do brand advertising through television, radio, print ads, and event sponsorships.

The following table reflects our sales and marketing expenses for the three months ended March 31, 2017 and 2016 (in thousands):

	Three months ended March 31,			
	2017	2016	\$ Change	% Change
Sales and marketing expenses	\$ 37,618	\$ 31,456	\$ 6,162	19.6%
Sales and marketing expenses as a percent of net revenues	8.7%	7.6%		

The 110 basis point increase in sales and marketing expenses as a percentage of revenue for the three months ended March 31, 2017, as compared to the same period in 2016, was primarily due to increased spending in the sponsored search marketing channels and increased staff related costs.

Sales and marketing expenses include stock-based compensation expense of \$96,000 and \$49,000 for the three months ended March 31, 2017 and 2016, respectively.

Costs associated with our discounted shipping and other promotions, such as coupons, are not included in sales and marketing expense. Rather, they are accounted for as a reduction of revenue and therefore affect sales and gross margin. We



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consider discounted shipping and other promotions, such as our policy of free shipping on orders over \$45, as an effective marketing tool, and intend to continue to offer them as we deem appropriate as part of our overall marketing plan.

We constantly evaluate where we spend our sales and marketing dollars. From time to time, competitors may bid up the cost of certain marketing channels, such as paid keywords. At such times, we may reduce the amounts we spend in those marketing channels, which may lead to decreased visitors to our site, or we may pay the increased rates, which increases our expenses.

#### *Technology expenses*

We seek to invest efficiently in technology, including web services, customer support solutions, website search, expansion of new and existing product categories, and in investments in technology to enhance the customer experience, improve our process efficiency and support and expand our logistics infrastructure. We expect to continue to increase our technology expenses to support these initiatives and these increases may be material.

The frequency and variety of cyberattacks on our Website, our corporate systems, and on third parties that we use to support our technology continue to increase, including an attack that took place in October 2016 which interrupted traffic for several major websites in the United States. The impact of such attacks, their costs, and the costs we incur to protect ourselves against future attacks have not been material. However, we consider the threat from cyberattacks to be serious and will continue to incur costs related to efforts to protect ourselves against them.

The following table reflects our technology expenses for the three months ended March 31, 2017 and 2016 (in thousands):

	Three months ended March 31,		\$ Change	% Change
	2017	2016		
Technology expenses	\$ 28,992	\$ 25,710	\$ 3,282	12.8%
Technology expenses as a percent of net revenues	6.7%	6.2%		

The \$3.3 million increase in technology costs for the three months ended March 31, 2017, as compared to the same period in 2016, was primarily due to an increase in staff related costs of \$1.0 million, an increase of \$958,000 in technology licenses and maintenance, and an increase in depreciation of \$902,000.

We continue to seek opportunities for growth, in our retail business and through our Medici blockchain and financial technology initiatives and through other means. As a result of these initiatives, we may continue to incur additional expenses or make investments in, or acquisitions of other technologies and businesses. We also anticipate that our Medici initiatives will incur losses in the near term. These losses, additional expenses, acquisitions or investments may be material, and, coupled with the seasonality of our business, may lead to reduced consolidated income or losses in some periods, and to reduced liquidity. Additionally, we may recognize additional impairment charges from our investments. We are also considering other alternatives for Medici, including a divestiture or raising capital. During the three months ended March 31, 2017, our Medici-related subsidiaries incurred a pre-tax loss of approximately \$8.0 million, which includes \$1.2 million of amortization and depreciation expense.

Technology expenses include stock-based compensation expense of \$160,000 and \$167,000 for the three months ended March 31, 2017 and 2016, respectively.

#### *General and administrative expenses*

The following table reflects our general and administrative expenses ("G&A") for the three months ended March 31, 2017 and 2016 (in thousands):

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	Three months ended March 31,		\$ Change	% Change
	2017	2016		
General and administrative expenses	\$ 22,610	\$ 21,848	\$ 762	3.5%
General and administrative expenses as a percent of net revenues	5.2%	5.3%		

The \$762,000 increase in general and administrative expenses (“G&A”) for the three months ended March 31, 2017, as compared to the same period in 2016, was primarily due to an increase of \$2.0 million in staff related costs, partially offset by a \$438,000 decrease in legal fees.

G&A expenses include stock-based compensation expense of approximately \$635,000 and \$701,000 for the three months ended March 31, 2017 and 2016, respectively.

*Litigation settlement*

In Q1 2016, we entered into a settlement agreement in our prime broker litigation which concluded the litigation in its entirety and we recognized settlement proceeds of \$19.5 million. Related costs associated with the litigation and settlement of approximately \$1.0 million were included in G&A expenses during Q1 2016.

*Depreciation and amortization expense*

Depreciation expense is classified within the corresponding operating expense categories on the consolidated statements of operations as follows (in thousands):

	Three months ended March 31,	
	2017	2016
Cost of goods sold - direct	\$ 83	\$ 77
Technology	6,685	5,920
General and administrative	930	192
Total depreciation, including internal-use software and website development	<u>\$ 7,698</u>	<u>\$ 6,189</u>

Amortization of intangible assets other than goodwill is classified within the corresponding operating expense categories on the consolidated statements of operations as follows (in thousands):

	Three months ended March 31,	
	2017	2016
Technology	\$ 905	\$ 726
Marketing	20	350
General and administrative	20	22
Total amortization of intangible assets other than goodwill	<u>\$ 945</u>	<u>\$ 1,098</u>

**Interest expense**

Total interest expense increased \$708,000, from \$2,000 in Q1 2016 to \$710,000 in Q1 2017. The increase in interest expense is primarily due to no longer capitalizing interest on our headquarters loan due to construction completion.

**Other income (expense), net**

Other income (expense), net for the three months ended March 31, 2017 was (\$3.7) million as compared to \$4.2 million in 2016. The decrease is primarily due to an impairment charge of \$4.5 million related to a cost method investment, and decreased Club O Rewards breakage of \$3.5 million due to discontinuing our Club O Silver rewards program in Q4 2016.

**Income taxes**

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Our income tax provision for interim periods is determined using an estimate of our annual effective tax rate adjusted for discrete items, if any, for relevant interim periods. We update our estimate of the annual effective tax rate each quarter and make cumulative adjustments if our estimated annual effective tax rate changes.

Our quarterly tax provision and our quarterly estimate of our annual effective tax rate are subject to significant variations due to several factors including variability in predicting our pre-tax and taxable income and the mix of jurisdictions to which those items relate, relative changes of expenses or losses for which tax benefits are not recognized, how we do business, fluctuations in our stock price, and changes in law, regulations, and administrative practices. Our effective tax rate can be volatile based on the amount of pre-tax income. For example, the impact of discrete items on our effective tax rate is greater when pre-tax income is lower.

Our provision (benefit) for income taxes for the three months ended March 31, 2017 and 2016 was \$(340,000) and \$9.0 million, respectively. The decrease in the provision was primarily due to a decrease in pre-tax income during the three months ended March 31, 2017 as compared to the same period in 2016.

The effective tax rate for the three months ended March 31, 2017 and 2016 was 5.1% and 40.6%, respectively. The decrease in the effective tax rate is primarily attributable to an impairment loss on a cost method investment that we recognized during the three months ended March 31, 2017, for which no tax benefit can be recorded.

We adopted ASU 2016-09 on January 1, 2017, which requires stock based compensation excess tax benefits or deficiencies to be reflected in the Consolidated Statements of Operations as a component of the provision for income taxes whereas they previously were recognized in equity.

We have indefinitely reinvested foreign earnings of \$476,000 at March 31, 2017. We would need to accrue and pay U.S. income tax on this amount if repatriated. We do not intend to repatriate these earnings.

We are subject to taxation in the United States and several state and foreign jurisdictions. Tax years beginning in 2012 are subject to examination by taxing authorities, although net operating loss and credit carryforwards from all years are subject to examinations and adjustments for at least three years following the year in which the attributes are used. We are under audit by the Internal Revenue Service ("IRS") for the calendar year 2015. The IRS has not indicated or communicated any deficiencies. We expect the audit to continue during 2017.

We assess the available positive and negative evidence to estimate whether we will generate sufficient future taxable income to use the existing deferred tax assets. We consider, among other things, our recent financial and operating results (three years of cumulative income and revenue growth during those periods), along with our forecasted growth rates, projected future taxable income, and prudent and feasible tax planning strategies. We perform sensitivity analyses to address how potential changes in significant assumptions would impact our ability to generate the minimum amount of taxable income required. We give the most weight to objective evidence related to our more recent financial results. Based upon the level of historical taxable income and projections for future taxable income, and planned tax strategies over the periods in which the deferred tax assets are deductible, we believe it is more likely than not that we will realize the benefits of these deduction differences, net of existing valuation allowances. However, it is possible that certain state tax credits could ultimately expire unused if estimates of future apportioned taxable income during the carryforward period are reduced. We will continue to monitor the need for a valuation allowance against our federal and state deferred tax assets on a quarterly basis.

### **Seasonality**

Based upon our historical experience, revenue typically increases during the fourth quarter because of the holiday retail season and gross margin decreases due to increased sales of certain lower margin products, such as electronics. Revenue typically decreases in the following quarter(s), as shown in the table below. The actual quarterly results for each quarter could differ materially depending upon consumer preferences, availability of product and competition, among other risks and uncertainties. Accordingly, there can be no assurances that seasonal variations will not materially affect our results of operations in the future.

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The following table reflects our total net revenues for each of the quarters in 2017, 2016 and 2015 (in thousands):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2017	\$ 432,435	\$ N/A	\$ N/A	\$ N/A
2016	413,677	418,540	441,564	526,182
2015	398,344	388,013	391,211	480,270

## Liquidity and Capital Resources

### Current sources of liquidity

We believe that our cash and cash equivalents currently on hand and expected cash flows from future operations will be sufficient to continue operations for at least the next twelve months. Our failure to generate sufficient revenues or profits or to obtain additional financing or raise additional capital could have a material adverse effect on our operations and on our ability to achieve our business objectives. Any projections of future cash needs and cash flows are subject to substantial uncertainty.

In December 2016, as a successful demonstration of the platform and technology developed by our majority-owned subsidiary tØ.com, Inc., we issued preferred shares of Overstock.com, Inc. for proceeds of \$7.6 million, net of offering costs.

In March 2017, we modified our revolving loan with U.S. Bank to increase our revolving borrowing capacity to \$25 million, all of which was available to us at March 31, 2017. For additional information, see *Borrowings - U.S. Bank term loan and revolving loan agreement* below.

We are party to a lease agreement with U.S. Bank under which we may finance certain assets up to \$20 million. At March 31, 2017, our outstanding liability under the lease agreement was approximately \$14.3 million. For additional information, see *Borrowings - U.S. Bank master lease agreement* below.

We do not have any credit facilities available to us other than our credit facility with U.S. Bank and other banks, our leasing arrangement with U.S. Bank, and our purchasing card with U.S. Bank, all as described under "Borrowings" below.

During Q1 2017, we repurchased approximately 604,000 shares of our common stock for an aggregate purchase price of \$10 million under our stock repurchase plan, utilizing cash on hand. All common shares repurchased were recognized as treasury stock. We may repurchase additional shares in the future.

Our principal sources of liquidity are cash flows generated from operations, and our existing cash and cash equivalents. At March 31, 2017, we had cash and cash equivalents of \$136.4 million.

Cash flow information is as follows (in thousands):

	Three months ended March 31,		Twelve months ended March 31,	
	2017	2016	2017	2016
<b>Cash provided by (used in):</b>				
Operating activities	\$ (23,097)	\$ (34,503)	\$ 50,970	\$ 63,102
Investing activities	(12,489)	(21,236)	(70,700)	(91,960)
Financing activities	(11,097)	13,666	27,956	32,725

### Free cash flow

"Free Cash Flow" (a non-GAAP measure) for the three months ended March 31, 2017 and 2016, was \$(34.4) million and \$(54.1) million, respectively, and \$(13.1) million and \$(9.4) million for the twelve months ended March 31, 2017 and 2016, respectively. See *Non-GAAP Financial Measures* below for a reconciliation of Free Cash Flow to net cash provided by (used in) operating activities.

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*Cash flows from operating activities*

For the three months ended March 31, 2017 and 2016, our operating activities resulted in net cash outflows of \$23.1 million and \$34.5 million, respectively.

Cash received from customers generally corresponds to our net revenues as our customers primarily use credit cards to buy from us causing our receivables from these sales transactions to settle quickly. We have payment terms with our partners that generally extend beyond the amount of time necessary to collect proceeds from our customers. As a result, following our typically seasonally strong fourth quarter sales, at December 31 of each year, our cash, cash equivalents, accounts payable and accrued liability balances normally reach their highest level (other than as a result of cash flows provided by or used in investing and financing activities). However, our accounts payable and accrued liability balances normally decline during the first three months following year-end, which normally results in a decline in our cash and cash equivalents balances from the year-end balance. The seasonality of our business causes payables and accruals to grow significantly in the fourth quarter, and then decrease in the first quarter when they are typically paid.

The \$23.1 million of net cash used in operating activities during the three months ended March 31, 2017 was primarily due to decreases in accounts payable of \$20.5 million and accrued liabilities of \$13.7 million, and consolidated net loss of \$6.3 million. Accounts payable and accrued liabilities decreased due to seasonality which caused high balances at year-end 2016 and a significant decline during 2017. The net cash used in operating activities during the three months ended March 31, 2017 was partially offset by non-cash depreciation expense of \$7.7 million, a decrease in accounts receivable of \$6.5 million and an impairment of a cost method investment of \$4.5 million.

The \$34.5 million of net cash used in operating activities during the three months ended March 31, 2016 was primarily due to decreases in accounts payable of \$45.5 million, accrued liabilities of \$13.3 million and deferred revenue of \$8.1 million. Accounts payable, accrued liabilities and deferred revenue decreased due to seasonality which caused high balances at year-end 2015 and a significant decline during 2016. The net cash used in operating activities during the three months ended March 31, 2016 was partially offset by consolidated net income of \$13.1 million, deferred income taxes of \$7.7 million, and non-cash depreciation expense of \$6.2 million.

*Cash flows from investing activities*

For the three months ended March 31, 2017, investing activities resulted in net cash outflows of \$12.5 million primarily due to \$11.3 million of expenditures for fixed assets.

For the three months ended March 31, 2016, investing activities resulted in net cash outflows of \$21.2 million primarily due to \$19.6 million of expenditures for fixed assets and \$2.9 million of disbursements for loans made.

*Cash flows from financing activities*

For the three months ended March 31, 2017, financing activities resulted in net cash outflows of \$11.1 million primarily due to the purchase of treasury stock for \$10.8 million.

For the three months ended March 31, 2016, financing activities resulted in net cash inflows of \$13.7 million primarily due to \$11.1 million of proceeds from our U.S. Bank term loan and \$3.4 million of proceeds from lease finance obligations with U.S. Bank.

**Contractual Obligations and Commitments**

The following table summarizes our contractual obligations as of March 31, 2017 and the effect such obligations and commitments are expected to have on our liquidity and cash flow in future periods (in thousands):

Contractual Obligations	Payments Due by Period						Total
	Remainder of 2017	2018	2019	2020	2021	Thereafter	
U.S. Bank term loan payments (1)	843	1,124	1,124	1,124	1,124	40,234	45,573
U.S. Bank master lease agreement (2)	2,439	3,356	3,479	3,502	1,494	—	14,270
Operating leases (3)	6,406	6,686	6,169	4,056	4,102	20,411	47,830
Purchase obligations (4)	2,321	—	—	—	—	—	2,321
<b>Total contractual cash obligations</b>	<b>\$ 12,009</b>	<b>\$ 11,166</b>	<b>\$ 10,772</b>	<b>\$ 8,682</b>	<b>\$ 6,720</b>	<b>\$ 60,645</b>	<b>\$ 109,994</b>

(1) — We are party to a financing agreement related to our corporate headquarters (see *Borrowings* below).

(2) — We have entered into an agreement to finance or sell and lease back certain assets (see *Borrowings* below).

(3) — From time to time we enter into operating leases for facilities and equipment for use in our operations.

(4) — The amount of purchase obligations shown above is based on assumptions regarding the legal enforceability against us of inventory purchase orders we had outstanding at March 31, 2017. Under different assumptions regarding our rights to cancel our purchase orders or different assumptions regarding the enforceability of the purchase orders under applicable law, the amount of purchase obligations shown in the table above would be less.

During Q1 2017, we established a partially self-funded health insurance plan for our employees, and have established accrued liabilities based upon claims history and estimates of claims that have been incurred but not reported. In addition to the contractual obligations summarized above, we are responsible for estimating our liability for unpaid costs of insured events under the health insurance plan that have occurred, which includes known cases on a case-basis, and also for events that have occurred, but have not yet been reported. As of March 31, 2017, we have recorded an accrued liability of approximately \$1.2 million. Actual claims may differ from the estimate and any difference could be significant. This accrual is included in accrued liabilities in the accompanying consolidated balance sheets.

*Tax contingencies*

We are involved in various tax matters, the outcomes of which are uncertain. As of March 31, 2017, tax contingencies were \$1.5 million. We expect the total amount of tax contingencies to increase in the future. In addition, changes in state, federal, and foreign tax laws may increase our tax contingencies. The timing of the resolution of tax contingencies is highly uncertain, and the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities may differ from the amounts accrued. While it is reasonably possible that within the next 12 months we will receive additional assessments by various tax authorities or reach resolution of tax contingencies in one or more jurisdictions, we do not anticipate that we will make any payments to such authorities during that period. These assessments or settlements may or may not result in changes to our contingencies related to positions on prior years' tax filings.

**Borrowings**

*U.S. Bank term loan and revolving loan agreement*

We are party to a loan agreement (as amended through March 30, 2017, the "Agreement") dated October 24, 2014 with U.S. Bank National Association and other banks in connection with the construction and long-term financing of our corporate headquarters (the "Project"). The Agreement provides for a senior secured real-estate loan of \$45.8 million (the "Term Loan") that we used to finance a portion of the Project and a \$25.0 million senior secured revolving credit facility (the "Revolving Loan") to be used for working capital and other permitted purposes, including stock repurchases. The Term Loan and the Revolving Loan are both secured by the Project, our inventory and accounts receivable, substantially all of our deposit accounts and related assets. On January 1, 2017, the Term Loan was converted from a real estate loan used in the construction of our headquarters into an approximately 6.75-year loan due October 1, 2023. The aggregate principal amount converted was \$45.8 million. The Revolving Loan terminates June 30, 2020.

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Amounts outstanding under the Term Loan carry an interest rate based on one-month LIBOR plus 2.00% or an Alternate Base Rate plus 1.00%. However, we have entered into interest rate swap agreements designed to fix our interest rate on the Term Loan at approximately 4.6% annually (see Derivative financial instruments in Note 2. Accounting Policies). We are required to make monthly payments of principal plus interest, with a balloon payment of all unpaid principal and interest on October 1, 2023. Amounts outstanding under the Revolving Loan will carry an interest rate based on LIBOR plus 2.00% or an Alternate Base Rate plus 1.00%.

Under the Agreement, we are required to maintain compliance as of the end of each calendar quarter with the following financial covenants:

- a fixed charge coverage ratio on a trailing 12-month basis of no less than 1.15 to 1.00;
- a cash flow leverage ratio on a trailing 12-month basis not greater than 2.75 to 1.00; and
- minimum liquidity of at least \$50.0 million.

At March 31, 2017, we were in compliance with the financial covenants. The Term Loan includes customary events of default. The Term Loan and the Revolving Loan are cross-defaulted and cross-collateralized. In the event of a default, the default rate of interest would be 2.00% above the otherwise applicable rate.

At March 31, 2017, our outstanding balance on the Term Loan was \$45.6 million. We have no amounts outstanding under the Revolving Loan. Our liability under the Term Loan approximates fair value. Amounts outstanding under the Term Loan are presented net of discount and issuance costs in our consolidated balance sheets.

On March 30, 2017, we amended the Agreement to increase our borrowing capacity under the Revolving Loan from \$10 million to \$25 million, to modify the Cash Flow Leverage Ratio limitation to not to exceed 2.75 to 1.00 (previously 2.50 to 1.00) and to make other changes, including a modification of the definition of "Restricted Payment" to exclude stock repurchases of up to \$60 million from January 1, 2017 to June 30, 2018 from the definition. The modification also extended the Term of the Revolving Loan to June 30, 2020.

### *U.S. Bank master lease agreement*

In November 2015, we entered into a Master Lease Agreement and a Financial Covenants Rider (collectively, the "Master Lease Agreement") with U.S. Bank Equipment Finance, a division of U.S. Bank National Association ("Lessor"). Under the Master Lease Agreement we are able to sell certain assets (the "Leased Assets") to the Lessor and simultaneously lease them back for a period of 60 months. We are also able to finance certain software licenses (inclusive in the "Leased Assets") for a period of 60 months. We have the right to repurchase the Leased Assets and terminate the Master Lease Agreement twelve months following the initial term. We have the right to repurchase the Leased Assets at the end of the term for \$1.00. Payments on the Master Lease Agreement are due monthly. During the three months ended March 31, 2017, we did not receive proceeds under the Master Lease Agreement. The average interest rate for amounts outstanding under the Master Lease Agreement was approximately 3.50%.

We have accounted for the Master Lease Agreement as a financing transaction and amounts owed are included in Finance Obligations, current and non-current in the consolidated balance sheets. We recorded no gain or loss as a result of this transaction. The Master Lease Agreement allows for lease financing of up to \$20 million. Our liability under the Master Lease Agreement approximates fair value.

In connection with the Master Lease Agreement, and as long as any obligations remain outstanding under the Master Lease Agreement, we are required to maintain compliance with the same financial covenants as the Agreement with U.S. Bank described above. At March 31, 2017, we were in compliance with these financial covenants.

### *U.S. Bank commercial purchasing card agreement*

We have a commercial purchasing card (the "Purchasing Card") agreement with U.S. Bank. We use the Purchasing Card for business purpose purchasing and must pay it in full each month. At March 31, 2017, \$904,000 was outstanding and \$4.1 million was available under the Purchasing Card. At December 31, 2016, \$811,000 was outstanding and \$4.2 million was available under the Purchasing Card.

## **Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that would be material to investors.

## **Critical Accounting Policies and Estimates**

The preparation of our financial statements requires that we make estimates and judgments. We base these on historical experience and on other assumptions that we believe to be reasonable. Our critical accounting policies are discussed in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" section of our Annual Report on Form 10-K for the year ended December 31, 2016, and our accounting policies and use of estimates are further discussed in Note 2 to the financial statements included in this Form 10-Q and elsewhere in this Management's Discussion and Analysis of Financial Condition and Results of Operations.

As discussed in Note 2 to the financial statements, during Q1 2017, we established a partially self-funded health insurance plan for our employees, and have recorded an accrued liability based upon claims history and estimates of claims that have been incurred but not reported. During Q1 2017, we implemented ASU No. 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes* on a retrospective basis and, for the year ended December 31, 2016, reclassified approximately \$16.3 million from current Deferred tax assets, net to long-term Deferred tax assets, net in our consolidated balance sheet. In addition, during Q1 2017, we implemented ASU No. 2016-09, *Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* on a modified retrospective basis and recognized \$9.4 million of additional deferred tax assets related to excess tax benefits through a cumulative effect adjustment in retained earnings as of January 1, 2017. The adoption of these new accounting standards is discussed further in Note 2 to the financial statements included in this Form 10-Q. There have been no other material changes to the critical accounting policies previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2016.

## **Non-GAAP Financial Measures**

Regulation G, *Conditions for Use of Non-GAAP Financial Measures*, and other SEC regulations regulate the disclosure of certain non-GAAP financial information.

### *Contribution and contribution margin*

Contribution (a non-GAAP financial measure which we reconcile below to "Gross Profit," the nearest GAAP financial measure appearing in our consolidated statement of operations) consists of gross profit less sales and marketing expense plus Club O Rewards and gift card breakage and reflects an additional way of viewing our results. Contribution margin is contribution as a percentage of total net revenue. We believe contribution and contribution margin provide management and users of the financial statements information about our ability to cover our operating costs, such as technology and general and administrative expenses, while reflecting the selling costs we incurred to generate our revenues. Including these amounts in our contribution improves this measure by adding back the reductions in revenue that we recognized for Club O Rewards that have subsequently expired and for gift cards whose redemption is remote. Contribution and contribution margin are used in addition to and in conjunction with results presented in accordance with GAAP and should not be relied upon to the exclusion of GAAP financial measures. The material limitation associated with the use of contribution is that it is an incomplete measure of profitability as it does not include all operating expenses or all non-operating income and expenses. Management compensates for these limitations when using this measure by looking at other GAAP measures, such as operating income and net income. You should review our financial statements and publicly-filed reports in their entirety and not rely on any single financial measure.



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For further details on contribution and contribution margin, see the reconciliation of these non-GAAP financial measures below (in thousands):

	Three months ended March 31,			
	2017		2016	
Total net revenue	\$ 432,435	100%	\$ 413,677	100%
Cost of goods sold	345,528	79.9%	336,370	81.3%
Gross profit	86,907	20.1%	77,307	18.7%
Less: Sales and marketing expense	37,618	8.7%	31,456	7.6%
Plus: Club O Rewards and gift card breakage (included in Other income (expense), net)	671	0.2%	4,169	1.0%
Contribution and contribution margin	\$ 49,960	11.6%	\$ 50,020	12.1%

Our calculation of our contribution and contribution margin by Retail Total (which consists of Direct and Partner) and Other (which consists of Medici) is set forth below (in thousands):

	Three months ended March 31,				
	Direct	Partner	Retail Total (Direct and Partner)	Other	Consolidated
<b>2017</b>					
Total net revenue	\$ 22,828	\$ 405,261	\$ 428,089	\$ 4,346	\$ 432,435
Cost of goods sold	20,963	321,297	342,260	3,268	345,528
Gross profit	\$ 1,865	\$ 83,964	\$ 85,829	\$ 1,078	\$ 86,907
Less: Sales and marketing expense			37,325	293	37,618
Plus: Club O Rewards and gift card breakage (included in Other income (expense), net)			671	—	671
Contribution			\$ 49,175	\$ 785	\$ 49,960
Contribution margin			11.5%	18.1%	11.6%
<b>2016</b>					
Total net revenue	\$ 26,651	\$ 384,269	\$ 410,920	\$ 2,757	\$ 413,677
Cost of goods sold	25,406	309,297	334,703	1,667	336,370
Gross profit	\$ 1,245	\$ 74,972	\$ 76,217	\$ 1,090	\$ 77,307
Less: Sales and marketing expense			31,311	145	31,456
Plus: Club O Rewards and gift card breakage (included in Other income (expense), net)			4,169	—	4,169
Contribution			\$ 49,075	\$ 945	\$ 50,020
Contribution margin			11.9%	34.3%	12.1%

*OSTK Retail and Medici pre-tax income or loss*

OSTK Retail and Medici pre-tax income or loss (non-GAAP financial measures - which we reconcile to Consolidated pre-tax income or loss) consists of income or loss before taxes of our Retail (which consists of Direct and Partner) and Medici (which is included in Other) businesses, excluding intercompany transactions eliminated in consolidation. We believe these measures provide management and users of the financial statements useful information because they provide financial results for our separate businesses which are distinct in nature. The material limitation associated with these measures is that they are an incomplete measure of our consolidated operations. These measures should be used in addition to and in conjunction with results presented in accordance with GAAP and should not be relied upon to the exclusion of GAAP financial measures. You should review our financial statements and publicly-filed reports in their entirety and not rely on any single financial measure. For additional information regarding our segment reporting, and a reconciliation of OSTK Retail and Medici pre-tax income or

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loss, please see Item 1 of Part I, "Financial Statements (Unaudited)"—Note 9. Business Segments, contained in the "Notes to Consolidated Financial Statements" of this Quarterly Report on Form 10-Q.

*Free cash flow*

Free cash flow (a non-GAAP financial measure) reflects an additional way of viewing our cash flows and liquidity that, when viewed with our GAAP results, provides a more complete understanding of factors and trends affecting our cash flows and liquidity. Free cash flow, which we reconcile below to "Net cash provided by (used in) operating activities," the nearest GAAP financial measure, is net cash provided by operating activities reduced by "Expenditures for fixed assets, including internal-use software and website development." We believe that net cash provided by operating activities is an important measure, since it includes both the cash impact of the continuing operations of the business and changes in the balance sheet that impact cash. However, we believe free cash flow is a useful measure to evaluate our business since purchases of fixed assets are a necessary component of ongoing operations and free cash flow measures the amount of cash we have available for mandatory debt service and financing obligations, changes in our capital structure, and future investments after purchases of fixed assets. Therefore, we believe it is important to view free cash flow as a complement to our entire consolidated statements of cash flows as reconciled below (in thousands):

	Three months ended March 31,		Twelve months ended March 31,	
	2017	2016	2017	2016
Net cash (used in) provided by operating activities	\$ (23,097)	\$ (34,503)	\$ 50,970	\$ 63,102
Expenditures for fixed assets, including internal-use software and website development	(11,344)	(19,592)	(64,033)	(72,493)
Free cash flow	\$ (34,441)	\$ (54,095)	\$ (13,063)	\$ (9,391)

**Government Regulation**

Our main business is subject to general business regulations and laws, as well as regulations and laws specifically governing the Internet, e-commerce and other services. Existing and future laws and regulations may result in increasing expense and may impede our growth. These regulations and laws may cover taxation, privacy, data protection, pricing, content, copyrights, distribution, mobile communications, electronic device certification, electronic waste, energy consumption, environmental regulation, electronic contracts and other communications, competition, consumer protection, information reporting requirements, the design and operation of websites, and the characteristics and quality of products and services. New state tax regulations in states where we do not now collect state and local taxes may subject us to the obligation to collect and remit state and local taxes, or subject us to additional state and local sales and income taxes, or to requirements intended to assist states with their tax collection efforts. New legislation or regulations, the application of laws and regulations from jurisdictions whose laws do not currently apply to our business or the application of existing laws and regulations to the Internet and commercial online services could result in significant additional taxes on our business. These taxes or tax collection obligations could have an adverse effect on us. Further, there is a possibility that we may be subject to significant fines or other payments for any past failures to comply with these requirements. In addition, it is not clear how existing laws governing issues such as property ownership, libel, and personal privacy apply to the Internet, e-commerce and digital content. Laws and regulations may diminish the demand for our products and services and increase our cost of doing business. Certain of our services are subject to federal and state consumer protection laws, including laws protecting the privacy of consumer information and regulations prohibiting unfair and deceptive trade practices. In particular, under federal and state financial privacy laws and regulations, we must provide notice to consumers of our policies on sharing non-public information with third parties, advance notice of any changes to our policies and, with limited exceptions, we must give consumers the right to prevent sharing of their non-public personal information with unaffiliated third parties. Further, the growth and demand for online commerce could result in more stringent consumer protection laws that could impose additional compliance burdens on us. These consumer protection laws could result in substantial compliance costs.

In addition, our broker dealers are subject to additional extensive regulatory requirements under federal and state laws and regulations and self-regulatory organization ("SRO") rules. Broker dealers are subject to regulation, examination and disciplinary action by the SEC, FINRA and state securities regulators, as well as other governmental authorities and SROs with which they are registered or licensed or of which they are members. See Part II - Item 1A - "Risk Factors - The registered broker dealers we acquired are subject to extensive regulation."

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Our efforts to expand our sales outside of the U.S. expose us to additional U.S. and foreign laws and regulations, including but not limited to, laws and regulations relating to taxation, business licensing or certification requirements, advertising practices, online services, the use of cryptocurrency, the importation of specified or proscribed items, importation quotas, consumer protection, intellectual property rights, consumer and data protection, privacy, encryption, restrictions on pricing or discounts, and the U.S. Foreign Corrupt Practices Act and other applicable U.S. and foreign laws prohibiting corrupt payments to government officials and other third parties. Our investment in Bitt Inc. also may expose us to additional laws and regulations relating to money transmitters and money services businesses. See Part II - Item 1A - "Risk Factors - Risks Related to Our Business and Industry - Risks Relating to Certain Specific Businesses, Investments in Businesses - and Recent or Planned Changes to Our Business - Our investment in Bitt Inc. may expose us to risks under laws and regulations with which we do not have significant experience."

**Factors that May Affect Future Results**

We believe that the cash and cash equivalents currently on hand and expected cash flows from future operations will be sufficient to continue operations for at least the next twelve months. All projections of future cash needs and cash flows are subject to substantial uncertainty. See Item 1A of Part II, "Risk Factors."

We periodically evaluate opportunities to repurchase our equity securities, obtain credit facilities, or issue additional debt or equity securities. In addition, we may, from time to time, consider the investment in, or acquisition of, complementary businesses, products, services, or technologies, any of which might affect our liquidity requirements or cause us to issue additional debt or equity securities. There can be no assurance that financing arrangements will be available in amounts or on terms acceptable to us, if at all.

On January 27, 2017, we repurchased approximately \$10 million of our common stock under the \$25 million stock repurchase plan authorized by our Board of Directors on May 5, 2015. We are considering additional repurchases of our common stock, which we may finance through additional debt.

Any investment in our securities involves a high degree of risk. Investors should consider carefully the risks and uncertainties described in this Form 10-Q, including the risks described in Item 1A of Part II ("Risk Factors") of this Form 10-Q, and all other information in this Form 10-Q and in our other filings with the SEC including those we file after we file this Form 10-Q, before deciding whether to purchase or hold our securities.

Additional risks and uncertainties not currently known to us or that we currently deem immaterial may also become important factors that may harm our business. The occurrence of any of the risks described under "Risk Factors" in this report could harm our business. The trading price of our securities could decline due to any of these risks and uncertainties, and investors may lose part or all of their investment.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Other than the interest rate swaps described below and elsewhere in this Quarterly Report on Form 10-Q, we do not use derivative financial instruments in our investment portfolio, and we have no foreign exchange contracts. Our financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, current notes payable and long-term obligations. We consider investments in highly-liquid instruments with a remaining maturity of 90 days or less at the date of purchase to be cash equivalents.

In connection with the syndicated senior secured credit facility with U.S. Bank described above, we entered into interest rate swap transactions. The swaps have an effective date of September 1, 2015 and a maturity date of October 1, 2023. The combined notional amount changes monthly beginning at approximately \$3.6 million on September 1, 2015, increasing to a maximum of approximately \$45.8 million as of December 31, 2016, and will decrease to approximately \$38.2 million on October 1, 2023. The swaps effectively fix our effective interest rate on the approximate amounts expected to be outstanding from time to time on the Real Estate Loan at an annual rate of approximately 4.6%. At March 31, 2017, we had \$45.6 million outstanding under the Real Estate Loan, and the notional amount of the swaps was \$45.6 million.

We carry our interest rate swaps at fair value on our consolidated balance sheets. At March 31, 2017, we recognized swap liabilities in the amount of \$1.6 million. The change in fair value of our swaps for the three months ended March 31, 2017 was a loss of \$246,000. The fair value of the swaps can be impacted by several factors including forward rates, interest rates and discount rates (see Item 1 of Part I, "Financial Statements"—Note 2. Accounting Policies, *Fair value of financial*

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*instruments*). Because we have designated our swaps as cash flow hedges for accounting purposes, to the extent the swaps qualify for this designation and are effective, changes in the fair value of the instruments are recognized through Other comprehensive income (loss) in our statements of comprehensive income (loss) (see Item 1 of Part I, "Financial Statements"—Note 2. Accounting Policies, *Derivative financial instruments*).

Our exposure to market risk for changes in interest rates relates primarily to our short-term investments and short-term obligations; thus, fluctuations in interest rates would not have a material impact on the fair value of these securities. However, the fair values of our investments may be subject to fluctuations due to volatility of the stock market in general, investment-specific circumstances, and changes in general economic conditions.

At March 31, 2017, we had \$136.4 million in cash and cash equivalents. Hypothetically, an increase or decrease in interest rates of one hundred basis points would have an estimated impact of \$1.4 million on our earnings or loss, or the cash flows of these instruments.

At March 31, 2017, we had assets consisting of investments in precious metals totaling \$9.9 million. Hypothetically, an increase or decrease in the market value of one hundred basis points could potentially have an estimated impact of \$99,000 on our earnings or loss, or the recorded value of these instruments. Earnings resulting from increases in the market value of precious metals would be limited to losses incurred in the same fiscal year.

#### **ITEM 4. CONTROLS AND PROCEDURES**

We maintain disclosure controls and procedures, as such term is defined in Rule 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The term *disclosure controls and procedures* means controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms.

Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

##### **Evaluation of Disclosure Controls and Procedures**

We carried out an evaluation required by the Exchange Act under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rule 13a-15(e) of the Exchange Act, as of the end of the period covered by this report. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and to provide reasonable assurance that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

During the most recent fiscal quarter, there has not occurred any change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives as specified above. Management does not expect, however, that our disclosure controls and procedures will prevent or detect all error and fraud. Any control system, no matter how well designed and operated, is based upon certain assumptions and can provide only reasonable, not absolute, assurance that its objectives will be met. Further, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected.

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

The information set forth under Item 1 of Part I, “Financial Statements”—Note 6—“Commitments and Contingencies,” subheading “Legal Proceedings and Contingencies,” contained in the “Notes to Consolidated Financial Statements” of this Quarterly Report on Form 10-Q is incorporated by reference in answer to this Item.

### ITEM 1A. RISK FACTORS

*Please consider the following risk factors carefully. If any one or more of the following risks were to occur, it could have a material adverse effect on our business, prospects, financial condition and results of operations, and the market price of our securities could decrease significantly. Statements below to the effect that an event could or would harm our business (or have an adverse effect on our business or similar statements) mean that the event could or would have a material adverse effect on our business, prospects, financial condition and results of operations, which in turn could or would have a material adverse effect on the market price of our securities. Many of the risks we face involve more than one type of risk. Consequently you should read all of the risk factors below carefully, including the risk factors under the caption “Risks Related Primarily to our Common Stock and Other Securities” before making any decision to acquire or hold our common stock. Holders of, and potential investors in, our Series A Preferred Stock should also read “Additional Risks Related to our Series A Preferred Stock,” and “Additional Risks Related to our Series A Preferred Stock and our Series B Preferred Stock,” below. Holders of, and potential investors in, our Series B Preferred Stock should also read “Additional Risks Related to our Series A Preferred Stock and our Series B Preferred Stock,” below.*

*Any investment in our securities involves a high degree of risk. Investors should consider carefully the risks and uncertainties described below, and all other information in this Form 10-Q and in any reports we file with the SEC after we file this Form 10-Q, before deciding whether to purchase or hold our securities. Additional risks and uncertainties not currently known to us or that we currently deem immaterial may also become important factors that may harm our business. The occurrence of any of the risks described in this Form 10-Q could harm our business. The trading price of our securities could decline due to any of these risks and uncertainties, and investors may lose part or all of their investment.*

***We have a history of significant losses. If we do not maintain profitability, our financial results and business could be harmed, and our stock price could suffer.***

We have a history of losses, and we may incur operating and net losses in the foreseeable future. At March 31, 2017, our accumulated deficit was \$150.4 million. We need to generate significant revenues to maintain profitability, and we may not be able to do so. Although we have generated positive net income in recent years, we incurred a net loss for 2011, and interim net losses during 2015, 2016 and 2017. We may be unable to maintain profitability in the future. If our revenues grow more slowly than we anticipate or decline, or if our expenses exceed our expectations, our financial results would be harmed and our business, prospects, financial condition and results of operations could fall below the expectations of our partners and other companies with which we do business, as well as public market analysts and investors. The occurrence of any of the foregoing could have a material adverse effect on our financial results and business.

***Our business depends on the Internet, our infrastructure and transaction-processing systems.***

We are completely dependent on our infrastructure and on the availability, reliability and security of the Internet and related systems. Substantially all of our computer and communications hardware is located at a single facility. Our systems and operations are vulnerable to damage or interruption from fire, flood, power loss, telecommunications failure, terrorist attacks, cyber-attacks, acts of war, break-ins, earthquake and similar events. Our back-up facility is not adequate to support sales at a high level. Our servers are vulnerable to malware, physical or electronic break-ins and other disruptions, the occurrence of any of which could lead to interruptions, delays, loss of critical data or the inability to accept and fulfill customer orders. Any system interruption that results in the unavailability of our Website or our mobile app or reduced performance of our transaction systems could interrupt or substantially reduce our ability to conduct our business. We have experienced periodic systems interruptions due to server failure, power failure and intentional cyber-attacks in the past. Any failure or impairment of our infrastructure or of the availability of the Internet or related systems could have a material adverse effect on our financial results and business.

***We are subject to cyber security risks and risks of data loss or other security breaches.***

Our business involves the storage and transmission of users' proprietary information, and security breaches could expose us to a risk of loss or misuse of this information, and to resulting claims, fines, and litigation. We have been subjected to a variety of cyber-attacks, which we expect will continue to occur from time to time. Cyber-attacks may target us, our customers, our suppliers, banks, credit card processors, delivery services, e-commerce in general or the communication infrastructure on which we depend. Any compromise of our security could result in a violation of applicable privacy and other laws, significant legal and financial exposure, damage to our reputation, and a loss of confidence in our security measures, any of which could have a material adverse effect on our financial results and business.

***Our dependence on payment card payments increases our risks.***

Most of our customers use credit cards to pay for their purchases. Under payment card rules and our contracts with our card processors, if we experience a breach of payment card information or fail to follow payment card industry security standards, we could incur significant fines, higher transaction costs or lose our ability to give customers the option of using payment cards. If we were unable to accept payment cards, it would have a material adverse effect on our financial results and business.

***Tariffs or other measures that increase the effective price of products we or our suppliers or fulfillment partners import into the United States could have a material adverse effect on our business.***

We and many of our suppliers and fulfillment partners source a large percentage of the products we offer on our website from China and other countries. If the United States imposes tariffs or other measures that directly or indirectly increase the price of products we or they import and that we offer on our website, the increased prices could have a material adverse effect on our financial results and business.

***We face intense competition and may not be able to compete successfully against existing or future competitors.***

The online retail market is evolving rapidly and intensely competitive. Barriers to entry are minimal, and current and new competitors can launch new websites at a relatively low cost. We currently compete with numerous competitors, including:

•	online retailers with or without discount departments, including Amazon.com, AliExpress (part of the Alibaba Group), eBay, and Rakuten.com (formerly Buy.com);
•	online specialty retailers such as Blue Nile, Bluefly, Houzz, Jet.com, Wayfair, Zappos.com, and Zulily;
•	private sale sites such as Groupon, Living Social and Rue La La;
•	furniture specialists including Ashley Furniture, Bob's Discount Furniture, Havertys, Raymour & Flanigan and Rooms To Go;
•	traditional general merchandise and specialty retailers and liquidators including Barnes and Noble, Bed, Bath & Beyond, Best Buy, Costco Wholesale Corporation, Crate and Barrel, Ethan Allen, Gilt, Home Depot, HomeGoods, Hudson's Bay Company, IKEA, J.C. Penny Company, Kirkland's, Kohl's, Lands' End, Lowe's, Macy's, Nordstrom, Pier 1 Imports, Pottery Barn, Restoration Hardware, Ross Stores, Saks Fifth Avenue, Sears Holding Corporation, T.J. Maxx, Target Corporation, Wal-Mart and Williams-Sonoma, all of which also have an online presence; and
•	liquidation e-tailers such as SmartBargains.

Many traditional manufacturers and retailers have added or improved their e-commerce offerings, and we expect that more will do so and that they will all continue to improve their offerings. Amazon continues to improve its offerings and delivery capabilities generally. Many of our competitors specialize in one or more of the areas in which we offer products. For example, our furniture offerings compete with more than 100 online retail furniture websites, in addition to many more traditional furniture retail specialists. Competition from Amazon and from other competitors, many of whom have longer operating histories, larger customer bases, greater brand recognition and significantly greater financial, marketing and other resources than we do, affect us and could have a material adverse effect on our financial results and business.

***Our business depends on effective marketing, including marketing via email and social networking messaging.***

We depend on effective marketing and high customer traffic. From time to time, competitors may bid up the cost of certain marketing channels, such as paid keywords. At such times, we may reduce the amounts we spend in those marketing

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channels, which may lead to decreased visitors to our site, or we may pay the increased rates, which increases our expenses. We depend on email to promote our site and offerings and to generate a substantial portion of our revenue. If a significant portion of our target customers no longer utilize email, or if we are unable to effectively and economically deliver email to our potential customers, whether for legal, regulatory or other reasons, it would have a material adverse effect on our business. We also rely on social networking messaging services for marketing purposes, and anything that limits our ability or our customers' ability or desire to utilize social networking services could have a material adverse effect on our business. If we are unable to develop, implement and maintain effective and efficient cost-effective advertising and marketing programs, it would have a material adverse effect on our financial results and business.

***We are experimenting with various ways to reduce the number of coupons we offer to our customers, which may have adversely affected our revenue growth and may continue to do so.***

Although our business has historically relied heavily on coupons to generate sales, we are experimenting with modifications to our coupon marketing. We believe that changes we have made to our coupon marketing in the past adversely affected our revenue growth, and that these and other changes we may make may continue to adversely affect our revenue growth. We have not yet achieved the results we are seeking, and there can be no assurance that we will be able to do so. If we are unable to generate sales using other marketing approaches at rates equal to or better than the rates we were generating through our coupon marketing, our revenue growth could be adversely affected or reversed, and it could have a material adverse effect on our financial results and business.

***If one or more states successfully asserts that we should collect sales or other taxes on the sale of our merchandise or the merchandise of third parties that we offer for sale on our Website, or that we should pay commercial activity taxes, our business could be harmed.***

We generally do not currently collect sales or other similar taxes on sales of goods into states where we have no duty to do so under federal court decisions construing applicable constitutional law. Certain jurisdictions are seeking payment of sales tax for sales we have made to customers in such jurisdictions or for payment of similar taxes or to impose sales tax collection obligations on us. If any jurisdiction where we do not or did not collect sales or other taxes successfully asserts that we should do so or should have done so, or should otherwise have collected or paid other types of taxes, it could have a material adverse effect on our business. Several states have enacted laws requiring remote vendors to notify resident purchasers in those states of their obligation to pay a use tax on their purchases and, in some instances, to report untaxed purchases to the state tax authorities. Other states have enacted legislation to require retailers without a physical presence in the state to collect and remit state sales taxes if they engage in any activity in connection with the selling, leasing or delivery of tangible personal property or taxable services within the state. In the past we have terminated affiliate marketing websites as a result of efforts by certain states to require us to collect sales taxes based on the presence of our third party Internet advertising affiliates in those states, and we may do so again, which may have material adverse effect on our financial results and business. Additional states may enact similar laws, or other laws to force or encourage through economic pressures remote retailers to collect and remit sales tax. Such laws could harm our business by imposing notice burdens upon us, by requiring transaction notices that would adversely affect sales, or by discouraging customer purchases by requiring detailed purchase reporting. The occurrence of any of the foregoing could have a material adverse effect on our financial results and business.

***Economic factors, including our increasing exposure to the U.S. housing industry, may adversely affect us.***

Economic conditions, particularly any weakness in the United States housing market, may adversely affect our financial performance. Over the last few years the percentage of our sales from home and garden products has increased substantially. We believe that our sales of home and garden products are affected by the strength of the U.S. housing industry, and that downturns in the U.S. housing industry could have a material adverse effect on our financial results and business.

***Decreases in discretionary consumer spending may have an adverse effect on us.***

A substantial portion of the products and services we offer are products or services that consumers may view as discretionary items rather than necessities. As a result, our results of operations are sensitive to changes in macro-economic conditions that impact consumer spending, including discretionary spending. Difficult macro-economic conditions, particularly high levels of unemployment or underemployment, also impact our customers' ability to obtain consumer credit. Other factors, including consumer confidence, employment levels, interest rates, tax rates, consumer debt levels, and fuel and energy costs could reduce consumer spending or change consumer purchasing habits. Slowdowns in the U.S. or global economy, or an

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uncertain economic outlook, could materially adversely affect consumer spending habits and could have a material adverse effect on our financial results and business.

***We are attempting to expand our international business, which could adversely affect us.***

We sell products in international markets, and are attempting to expand into some of these markets. International sales and transactions, and our efforts to expand them, are subject to inherent risks and challenges that could adversely affect us, including:

•	the need to develop new supplier and manufacturer relationships;
•	the need to comply with additional U.S. and foreign laws and regulations;
•	changes in international laws, regulatory requirements, taxes and tariffs;
•	our limited experience with different local cultures and standards;
•	geopolitical events, such as war and terrorist attacks;
•	the risk that the products we offer may not appeal to customers in international markets; and
•	the additional resources and management attention required for such expansion.

Penalties for non-compliance with laws applicable to international business and trade, including the U.S. Foreign Corrupt Practices Act, could have a material adverse effect on our business. Foreign data protection, privacy and other laws and regulations are different and often more restrictive than those in the United States. Compliance with such laws and regulations will result in additional costs and may necessitate changes to our business practices, which may adversely affect our business. To the extent that we make purchases or sales denominated in foreign currencies, we would have foreign currency risks, which could have a material adverse effect on our financial results and business.

***A subsidiary of ours owns the land on which we built our new headquarters, and consequently has environmental and other risks, and we may incur environmental expense and liabilities under the environmental indemnity agreement we entered into in connection with our credit facility.***

In 2014 our wholly-owned subsidiary O.com Land, LLC purchased land near Salt Lake City, Utah on which we have built our new headquarters. The land is part of the Midvale SLAG Superfund Site ("Site"), a former Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") superfund site that was remediated pursuant to CERCLA prior to O.com Land's purchase. O.com Land, LLC is required to follow certain requirements of CERCLA and the consent decree governing remediation of the Site, and its failure to do so could expose us to material environmental liabilities. Further, in connection with the credit facility we entered into with U.S. Bank and other banks, we entered into a broad environmental indemnity agreement pursuant to which we agreed to indemnify U.S. Bank and other banks and other persons against a broad array of potential environmental claims, liabilities and exposures relating to the property. Any such environmental liabilities, and any liabilities under the environmental indemnity agreement, could be material and could have a material adverse effect on our financial results and business.

***Our secured credit facility requires us to maintain compliance with financial and other covenants.***

In connection with the construction of our new headquarters we entered into a syndicated senior secured credit facility with U.S. Bank and other banks that provided us with construction financing of \$45.8 million and a \$10 million revolver. On January 1, 2017 the construction financing converted into a term loan due October 2023, and in March 2017 the credit facility was amended to increase the revolver to \$25 million and to extend the revolver due date to June 30, 2020 (subject to potential earlier termination under the terms of the Loan Agreement). We will need to maintain compliance with the requirements governing the facility, including compliance with financial and other covenants, certain of which may be subject to events outside of our control. We have pledged substantially all of our assets to secure our obligations under the credit facility. If we fail to comply with the terms of the credit facility, the failure could have a material adverse effect on our liquidity and financial results and business.

***We have entered into long-term interest rate swaps that expire in October 2023.***

In connection with the syndicated senior secured credit facility described above, we entered into interest rate swaps with U.S. Bank and Compass Bank intended to manage our interest rate risk on the indebtedness. Regardless of the status of



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that indebtedness, we will remain liable for payments due under the swaps unless we settle them. If we were to settle the swaps at a time when interest rates have fallen (relative to the swaps' inception), the price to settle the swaps could be material. Any such adverse developments could result in material liabilities and expense and could have a material adverse effect on our financial results and business.

***We have incurred substantial indebtedness and intend to incur additional indebtedness.***

At March 31, 2017, we had incurred secured indebtedness of approximately \$45.6 million under our syndicated senior secured credit facility, and we had total liabilities of \$274.3 million. We intend to incur additional indebtedness, by drawing under the facility revolver or otherwise as permitted by the facility. This indebtedness increases our business risks substantially, including our vulnerability to industry downturns and competitive pressures. The degree to which we are ultimately leveraged could materially and adversely affect our ability to obtain additional financing for working capital, acquisitions or other purposes. Our ability to satisfy our debt service obligations will be dependent upon our future performance, which will be subject to financial, business and other factors affecting our operations, many of which are beyond our control. Any difficulties we have satisfying our debt service obligations could have a material adverse effect on our financial results and business.

***We may be unable to generate sufficient cash flow to satisfy our debt service obligations.***

Our ability to generate cash flow from operations to make interest and principal payments on our debt obligations will depend on our future performance, which will be affected by a range of economic, competitive and business factors. We cannot control many of these factors, including general economic conditions and the health of the Internet retail industry. If our operations do not generate sufficient cash flow from operations to satisfy our debt service obligations and all of our other obligations, we may need to borrow additional funds to make these payments or undertake alternative financing plans, such as refinancing or restructuring our debt, or reducing or delaying capital investments and other expenses. Additional funds or alternative financing may not be available to us on favorable terms, or at all. Our inability to generate sufficient cash flow from operations or obtain additional funds or alternative financing on acceptable terms could have a material adverse effect on our financial results and business.

***Our Board has authorized a stock repurchase program and repurchases under the program reduce our liquidity and increase our risks.***

In May 2015, our Board authorized a stock repurchase program. In January 2017, we repurchased approximately 604,000 shares of our common stock for \$10 million under the program. We may repurchase additional shares for up to \$15 million at any time through December 31, 2017 under our existing repurchase program. Further, our Board could authorize additional repurchases. The amendments to our credit facility made in March 2017 permit us to repurchase additional shares for up to \$50 million at any time through June 30, 2018. Any such repurchases would reduce our liquidity and could increase our vulnerability to industry downturns and competitive pressures. A material decrease in our liquidity could have a material adverse effect on our financial results and business.

***We face risks relating to our inventory and returns.***

In our direct business, we sell merchandise that we have purchased and hold in inventory. In addition, subject to our returns policies, we accept returns of products sold through our partners as well as products we sell in our direct business, and we have the risk of reselling the returned products. We assume the risks of inventory damage, theft and obsolescence, as well as risks of price erosion for these products, and we sometimes sell merchandise at a loss. Our risk of losses in our direct business is especially significant because much of the merchandise we sell is subject to seasonal trends, fashion trends, rapid technological change, obsolescence and price erosion, and because we sometimes make large purchases of particular types of inventory. Difficulties we may experience with our inventory or returns could have a material adverse effect on our financial results and business.

***If we do not successfully optimize and operate our warehouse and customer service operations, our business could be harmed.***

We have expanded, contracted and otherwise modified our warehouse and customer service operations from time to time in the past, and expect that we will continue to do so. We also contract with third parties to operate warehouses, receive returns and process orders. If we or our third party providers do not successfully optimize and operate our warehouse and

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customer service operations, it could significantly limit our ability to meet customer demand, customer shipping or return time expectations, or result in excessive costs and expenses for the size of our business. Because it is difficult to predict demand, we may not be able to manage our facilities in an optimal way, which may result in excess or insufficient inventory or warehousing capacity. We may also fail to staff our fulfillment and customer service centers at optimal levels. Our failure to manage our warehouse operations or our fulfillment and customer service centers optimally could adversely affect our financial results and customer experience, and could have a material adverse effect on our financial results and business.

***We depend on a large number of other companies to perform functions critical to our ability to deliver products and services to our customers.***

We depend on a large number of other companies, including a large number of independent fulfillment partners whose products we offer for sale on our Website, to perform functions critical to our ability to deliver products and services to our customers. We depend on our fulfillment partners to perform a number of traditional retail operations such as maintaining inventory, preparing merchandise for shipment to our customers and delivering purchased merchandise on a timely basis, and also on the delivery services that we and they utilize. Difficulties with any of our significant fulfillment partners or with any of the delivery services, regardless of the reason, could have a material adverse effect on our financial results and business.

***Risks associated with the suppliers from whom we or our fulfillment partners source products and risks regarding the safety, labelling, content or quality of those products could adversely affect our financial performance.***

We depend on our ability to access products from qualified suppliers in a timely and efficient manner. We rely on our suppliers' representations of product safety, content and quality. We also rely on our partners to ensure proper labelling of products. Issues or concerns regarding product safety, labelling, content or quality could result in consumer or governmental claims and could adversely affect our financial results and business. Any indemnity agreement we may have with the supplier of the relevant product may be inadequate or inapplicable, and any insurance coverage we may carry may be inadequate. Even unsuccessful claims could result in the expenditure of funds and management time and could have a negative impact on our business. The occurrence of any of the foregoing could have a material adverse effect on our financial results and business.

***If we fail to accurately forecast our expenses and revenues, our business may be harmed.***

The rapidly evolving nature of our industry and the constantly evolving nature of our business make forecasting operating results difficult. We periodically implement large, complex and expensive infrastructure upgrades in order to increase our ability to handle larger volumes of sales and to develop or increase our ability to perform a variety of analytical procedures relating to our business. We are continuing to upgrade and further expand these and other components of our infrastructure, and are in the process of integrating infrastructure relating to the fintech company and broker dealers we recently acquired. As a result of expenditures on our infrastructure and headquarters, our ability to reduce our expenditures is and will be limited, and any significant shortfall in the revenues for which we have built and are continuing to build our business could have a material adverse effect on our financial results and business.

***Changes in assumptions, estimates and judgments by management related to complex accounting matters could affect our financial results significantly.***

The rules governing our financial reporting require our management to make many subjective assumptions, estimates and judgments about revenue recognition, valuation allowances and accrued liabilities (including allowances for returns, credit card chargebacks, doubtful accounts, obsolete and damaged inventory, and self-funded health insurance liabilities), internal-use software and website development (acquired and developed internally), income taxes, valuation of intangible assets and goodwill, stock-based compensation, loss contingencies and other matters. Changes in any of these assumptions, estimates or judgments could change our reported or expected financial performance significantly, and could have a material adverse effect on our financial results and business.

***Changes in accounting policies governing our financial reporting could affect our future financial results significantly.***

The Financial Accounting Standards Board (FASB), which sets accounting standards for U.S. public companies, has issued new standards relating to revenue recognition. Subject to transition provisions, the new standards will become effective for us on January 1, 2018. We are in the process of analyzing the new standards and their application to our financial reporting. We have not reached conclusions about the effects of the new standards on our future financial reporting, but have identified

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gross versus net revenue recognition and the timing of revenue recognition (FOB shipping point versus FOB destination) as potentially significant issues in our analysis. We generate substantially all of our net revenues in our retail partner business, in which we sell merchandise from manufacturers, distributors and other suppliers primarily through our Website. Under current FASB standards, we recognize revenue from the majority of these sales transactions on a gross basis. If our adoption of the new standards requires us to recognize net, rather than gross, revenue from the same types of sales for which we currently recognize gross revenue, our future revenue would be substantially lower than it would be under the current standards.

***Our income tax provisions and the amounts we reserve for tax contingencies are estimates and are subject to variations and adjustments. The amounts we ultimately pay may exceed the amounts estimated or accrued.***

Our quarterly tax provision, and our quarterly estimate of our annual effective tax rate, is subject to significant variation due to several factors, including variability in accurately predicting our pre-tax and taxable income and loss and the mix of jurisdictions to which they relate, changes in how we do business, changes in law, regulations, and administrative practices, and relative changes of expenses or losses for which tax benefits are not recognized. Additionally, our effective tax rate can be more or less volatile based on the amount of pre-tax income. For example, the impact of discrete items and non-deductible expenses on our effective tax rate is greater when our pre-tax income is relatively low. We are subject to audits by a number of tax authorities. The timing of the resolution of income, sales and other tax examinations is highly uncertain, and the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities may differ from the amounts we have accrued. It is possible that within the next 12 months we will receive additional assessments by various tax authorities or reach resolution of income tax examinations in one or more jurisdictions. These assessments or settlements may result in changes to our contingencies related to positions on prior years' tax filings and may result in increases to amounts we have accrued. The volatility of our quarterly tax provision, the resolution of matters related to our tax contingencies, and establishment of or increases to any such accruals could have a material adverse effect on our financial results and business.

***We have reversed the valuation allowance for our deferred tax assets, and we may not be able to realize these assets in the future. Our deferred tax assets may also be subject to additional valuation allowances, which could adversely affect our operating results.***

From our inception to December 31, 2013, we established a valuation allowance for our deferred tax assets, primarily due to realized losses and uncertainty regarding our future taxable income. Determining whether a valuation allowance for deferred tax assets is appropriate requires significant judgment and an evaluation of all positive and negative evidence. At each reporting period, we assess the need for, or the sufficiency of, a valuation allowance against deferred tax assets. At December 31, 2013, based on the weight of all the positive and negative evidence (primarily our estimate of future taxable income), we concluded that it was more likely than not that we would realize our net deferred tax assets based upon future taxable income, and we reversed the valuation allowance at December 31, 2013. Our estimates of future taxable income are based primarily on historical performance, but also include estimates and assumptions and external data, some of which are subject to significant judgment. If our actual taxable income differs significantly from our estimates, we may need to reestablish a valuation allowance for some or all of our deferred tax assets, which could have a material adverse effect on our financial results and business.

***The businesses that we are pursuing through our Medici initiatives are novel and subject to technical, operational, financial, regulatory, legal, reputational and marketing risks.***

In August 2015, we acquired the assets and business of a financial technology ("fintech") company and in January 2016, we acquired two registered broker dealers (our "broker dealer subsidiaries") that were affiliated with the fintech company. We have limited experience with the operation of fintech companies or of broker dealers. Further, we have recently issued publicly-traded securities traded exclusively on a registered alternative trading system operated by one of our majority-owned broker dealer subsidiaries, the ownership of which is tracked on a distributed ledger. We are also working on other potential financial applications of distributed ledger, or blockchain, technology. All of these are areas in which we do not have substantial experience, and all of them are subject to the risks of new and novel businesses, including technical, operational, financial, regulatory, legal and reputational risks, as well as the risk that we may be unable to market, license or sell our technology successfully or profitably. The occurrence of any such risks could have a material adverse effect on our financial results and business.

***We may be required to write off amounts relating to our investments in startup businesses.***

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At March 31, 2017, we had invested approximately \$15.1 million in several companies that are in the startup or development stages. During Q1 2017 and Q3 2016, we recognized impairment losses of \$4.5 million and \$2.9 million, respectively, on our cost method investments, which decreased the carrying amount of our cost method investments to approximately \$7.7 million at March 31, 2017. These investments are inherently risky because the markets for the technologies or products these companies are developing are typically in the early stages and may never materialize. Additionally, since several of our investments are in the early startup or development stages, even if their technology or products are viable, they may not be able to obtain the capital or resources necessary to successfully bring their technology or products to market. Furthermore, we have no assurance that the technology or products of our investees would be successful, even if they were brought to market. We may write off additional amounts related to these investments, and any such write-offs could be material. Any of the foregoing could have a material adverse effect on our financial results and business.

### ***The registered broker dealers we acquired are subject to extensive regulation.***

The broker dealers we acquired in January 2016 are subject to regulation, examination and disciplinary action by the SEC, the Financial Industry Regulatory Authority ("FINRA") and state securities regulators, as well as other governmental authorities and self-regulatory organizations ("SROs") with which they are registered or licensed or of which they are members. The broker dealers are also subject to rules and regulations relating to the prevention and detection of money laundering, privacy and data protection laws and regulations, and substantial other regulatory requirements. Any failure to comply with all applicable regulations, and any regulatory proceeding or civil or criminal action against any of the broker dealers that we have acquired, or any of their associated persons, could have a material adverse effect on our financial results and business. Further, any failure to identify and successfully manage conflicts of interest or to implement appropriate policies or procedures could subject the broker dealers or us to disciplinary sanctions or litigation or could harm our reputation. Any of the foregoing could have a material adverse effect on our financial results and business.

### ***Our investment in Bitt Inc. may expose us to additional risks.***

In 2016, we acquired an equity interest in Bitt, Inc., a startup company based in Barbados, that is pursuing a variety of digital currency transfer and payment businesses in the Caribbean. Virtually every state in the U.S. regulates money transmitters and money services businesses. In some states the licensing requirements and regulations expressly cover companies engaged in digital currency activities; in other states it is not clear whether or how the existing laws and regulations apply to digital currency activities. Further, U.S. federal law requires registration of most such businesses with the Financial Crimes Enforcement Network ("FinCEN"). These licenses and registrations subject companies to various anti-money laundering, know-your-customer, record-keeping, reporting and capital and bonding requirements, limitations on the investment of customer funds, and inspection by state and federal regulatory agencies. Under U.S. federal law, it is a crime for a person, entity or business that is required to be registered with FinCEN or licensed in any state to fail to do so, even if the person, entity or business was unaware of the licensing requirement. Further, under U.S. federal law, anyone who owns all or part of an unlicensed money transmitting business may be subject to civil and criminal penalties. The business in which we have invested has represented to us that it has not taken any action that could subject it to registration with FinCEN or to the licensing requirements in any state and has agreed that it will not do so until it has become properly licensed in all required states and registered with FinCEN. However, if the business makes an error, even inadvertently, we could be subject to potential civil and criminal penalties as a result. Any such penalties, or even the allegation of criminal activities, could have a material adverse effect on us and on our financial results and business. Further, all of our foreign business activities expose us to a variety of risks, including risks under the Foreign Corrupt Practices Act.

### ***Each of our offerings faces specialized competition and involves regulatory risks.***

We offer a variety of services and product offerings, including specialized services and product offerings, such as advertising for automobiles, insurance offerings, and our Farmers Market offerings. Each of these is subject to substantial regulation and competition. For example, many states and other jurisdictions, including Utah, where we are located, have regulations governing the conduct of car sellers and public advertising for car sales. We have no ability to know whether the information the car advertisers provide is correct. Similarly, we have no ability to ensure that the sellers in our Farmers Market offerings comply with all regulations governing the sale of food products. More generally, we have no ability to ensure that our partners or others with whom we do business will comply with all laws and regulations applicable to them and their transactions. Any negative publicity we receive regarding any allegations of unlawful or deceptive conduct may damage our reputation, our ability to attract new customers to our main shopping site, and our brand name generally. The occurrence of any of the foregoing could have a material adverse effect on our financial results and business.

***We have an evolving business model, which increases the complexity of our business.***

Our business model has evolved in the past and continues to do so. In prior years we have added additional types of services and product offerings and in some cases we have modified or discontinued those offerings. We intend to continue to try to offer additional types of products or services, and we do not know whether any of them will be successful. From time to time we have also modified aspects of our business model relating to our product mix and the mix of direct/partner sourcing of the products we offer. The additions and modifications to our business have increased the complexity of our business and placed significant strain on our management, personnel, operations, systems, technical performance, financial resources, and internal financial control and reporting functions. Future additions to or modifications of our business are likely to have similar effects. Further, any new business or website we launch that is not favorably received by consumers could damage our reputation or our brand. The occurrence of any of the foregoing could have a material adverse effect on our financial results and business.

***The seasonality of our business places increased strain on our operations.***

A disproportionate amount of our sales normally occur during our fourth quarter. If we, or our partners, do not stock or are otherwise unable to source products sufficient to meet customer demand, our business would be adversely affected. We may experience an increase in our net shipping cost due to complimentary upgrades and the expense of shipments necessary to ensure timely delivery for the holiday season. In addition, we may be unable to adequately staff our fulfillment and customer service centers during peak periods, and delivery services and other fulfillment companies and customer service providers may be unable to meet the seasonal demand. The occurrence of any of the foregoing could have a material adverse effect on our financial results and business.

***Any acquisitions we make will increase costs and regulatory and integration risks.***

From time to time we may acquire other businesses. Integrating an acquired business involves a number of risks and financial, managerial and operational challenges. We have incurred significant expenses in connection with acquisitions we have made in the past, and may incur additional expenses in connection with those acquisitions or in connection with other acquisitions we may make in the future. Our overall profitability would be adversely affected if our investments and expenses associated with any investments we have made or may make in the future are not justified by the revenues and profits, if any, that are derived from such investments. Further, acquisitions may also create a need for additional accounting, tax, compliance, documentation, risk management and internal control procedures, and may require us to hire additional personnel to implement, perform and/or monitor such procedures. To the extent our procedures are not adequate to appropriately implement, perform and/or monitor all necessary procedures relating to any new or expanded business, we could be exposed to a material loss or regulatory sanction. The occurrence of any of the foregoing could have a material adverse effect on our financial results and business.

***We are routinely involved in substantial litigation.***

From time to time we receive claims and become subject to lawsuits involving consumer protection, employment, intellectual property and other matters related to the conduct and operation of our business and the sale of products on our Website, including claims by regulators and by customers. In addition, we have in the past been and in the future may be, involved in substantial litigation, including litigation regarding the constitutionality of certain state tax laws, in which we are the plaintiff. Any such litigation, whether as plaintiff or defendant, may be costly and time consuming and could divert management and key personnel from our regular business operations. An unfavorable resolution of any such matter could have a material adverse effect on our financial results and business.

***We may be accused of infringing intellectual property rights of third parties.***

We have been and expect we will continue to be subject to claims that we have infringed the intellectual property rights of others, by offering allegedly infringing products or otherwise. We have contested and expect to continue to contest claims we consider unfounded rather than settling such claims, even when we expect the costs of contesting the claims to exceed the cost of settlement. Any claims may result in significant expenditure of our financial and managerial resources, and may result in us making significant damages or settlement payments or changes to our business. We could be prohibited from using software or business processes, or required to obtain licenses from third parties, which could be expensive or unavailable. Any such difficulties could have a material adverse effect on our financial results and business.

***We may be unable to protect our proprietary technology and to obtain trademark protection for our marks.***

Our success depends to a significant degree upon the protection of our software and other proprietary intellectual property rights. We may be unable to protect it, in the United States or elsewhere, which could have a material adverse effect on our business. Further, we may not be able to secure protection for our service marks or trademarks in the United States or elsewhere as we expand internationally. Our competitors might adopt product or service marks similar to our marks, or might try to prevent us from using our marks. Any claim by another party against us or customer confusion related to our trademarks, or our failure to obtain trademark registration, could have a material adverse effect on our financial results and business.

***Our decision to accept and hold cryptocurrency, such as bitcoin, may subject us to exchange risk and additional tax and regulatory requirements.***

In January 2014, we began accepting bitcoin as a form of payment for purchases on our Website. Bitcoin is not considered legal tender or backed by any government, and it has experienced price volatility, technological glitches and various law enforcement and regulatory interventions. In September 2014, we began accepting bitcoin internationally. The use of cryptocurrency such as bitcoin has been prohibited or effectively prohibited in some countries. If we fail to comply with regulations or prohibitions applicable to us, we could face regulatory or other enforcement actions and potential fines and other consequences. From time to time we also hold bitcoin and other cryptocurrencies directly, and we have exchange rate risk on the amounts we hold as well as the risks that regulatory or other developments may adversely affect the value of the cryptocurrencies we hold. The uncertainties regarding legal and regulatory requirements relating to cryptocurrencies or transactions utilizing cryptocurrencies, as well as potential accounting and tax issues, or other requirements relating to cryptocurrencies could have a material adverse effect on our financial results and business.

***Our cash, cash equivalents and short-term investments are subject to a risk of loss based upon the solvency of the financial institutions in which they are maintained.***

We maintain the majority of our cash, cash equivalents and short-term investments in accounts with a small number of major financial institutions within the United States, in the form of demand deposits, money market accounts, time deposits, U.S. Treasury Bills and other short-term investments. Our deposits in these institutions are generally substantially in excess of the amounts of insurance provided by the FDIC, and some deposits may not be covered by insurance at all. If any of these institutions were to become insolvent or subject to regulatory action, we could lose some, or all, of such deposits, which would have a material adverse effect on our financial results and business.

***Existing or future government regulation could harm our business.***

We are subject to regulation at the federal, state, local and international levels, including regulation relating to privacy, security, retention, transfer and use of personal user information and telemarketing laws. Increasing regulation may increase the cost of our business and may further restrict our marketing efforts. Existing laws, including those governing advertising, product labeling, product content requirements and product safety, may cause us to incur expenses. We may be subject to claims related to personal injury, death, environmental or property damage. We are periodically required to participate in product recalls. We may incur expense in connection with any of the foregoing or other matters or actions which may not be covered by any liability insurance we may carry. These current and future laws and regulations could have a material adverse effect on our financial results and business.

***Changes in management roles and responsibilities, the loss of key personnel, or any inability to attract and retain additional personnel could affect our ability to successfully grow our business.***

Our performance is substantially dependent on the continued services and on the performance of our senior management and other key personnel. Our performance also depends on our ability to retain and motivate our officers and key employees. Changes in the roles and responsibilities of members of management or the loss of the services of any of our executive officers or other key employees for any reason could harm our business. Members of senior management or key employees may need to take a leave of absence for medical or other reasons. In 2013 our Chief Executive Officer and then Chairman of the Board, Dr. Patrick M. Byrne, took a two-month leave of absence for medical reasons, and in April 2016 he took a three-month leave of absence for medical reasons. We do not have employment agreements with any of our key personnel and we do not maintain “key person” life insurance policies. Our future success also depends on our ability to identify, attract, hire, train, retain and motivate other highly-skilled technical, managerial, editorial, merchandising, marketing

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and customer service personnel. Competition for such personnel is intense. Our failure to attract and retain the necessary personnel could have a material adverse effect on our financial results and business.

***Mobile commerce and our Club O offerings are becoming increasingly significant to us.***

Mobile commerce and our Club O offerings are becoming increasingly significant to us. Customers who use mobile devices and customers who join Club O may behave differently from our other customers. If we fail to successfully develop and market our mobile app or our Club O offerings, it could have a material adverse effect on our business.

***Our insurance coverage and indemnity rights may not adequately protect us against loss.***

The types, coverage, or the amounts of any insurance coverage we may carry from time to time may not be adequate to compensate us for any losses we may actually incur in the operation of our business. Further, any insurance we may desire to purchase may not be available to us on terms we find acceptable or at all. We are not indemnified by all of our suppliers, and any indemnification rights we may have may not be enforceable or adequate to cover actual losses we may incur as a result of our sales of their products. Actual losses for which we are not insured or indemnified, or which exceed our insurance coverage or the capacity of our indemnitors or our ability to enforce our indemnity agreements, could have a material adverse effect on our business.

***We are partially self-insured with respect to our employees' health insurance. If the actual costs of these claims exceed the amounts we have reserved for them, we would incur additional expense.***

Beginning January 1, 2017, we are partially self-insured with respect to our employees' health insurance, except to the extent of stop-loss coverage that limits our losses both on a per employee basis and an aggregate basis. The actual costs of our employees' health insurance claims could exceed our estimates of those costs for a number of reasons, including more claims or larger claims than we expect, and increases in the costs of healthcare generally. If the actual cost of our employees' health insurance claims and related expenses exceeds the amounts we have accrued, we may be required to record additional charges for these claims and/or to establish additional reserves, which could have a material adverse effect on our financial results and business.

**Risks Related Primarily to our Common Stock and Other Securities**

*(Holders of, and potential investors in, our Series A Preferred Stock should also read "Additional Risks Related to our Series A Preferred Stock," and "Additional Risks Related to our Series A Preferred Stock and our Series B Preferred Stock," below)*

*(Holders of, and potential investors in, our Series B Preferred Stock should also read "Additional Risks Related to our Series A Preferred Stock and our Series B Preferred Stock," below)*

***The issuance of our Series A Preferred Stock and our Series B Preferred Stock could adversely affect the holders of our common stock in some circumstances.***

In December 2016, we issued shares of our Blockchain Voting Series A Preferred Stock (the "Series A Preferred") and our Voting Series B Preferred Stock (the "Series B Preferred," and together with the Series A Preferred, collectively sometimes called the "Preferred Stock") in a registered rights offering (the "rights offering"). The Preferred Stock could adversely affect the holders of our common stock in some circumstances. Except as required by law, the Preferred Stock will vote with the common stock on all matters submitted to a vote of the common stock, with holders of the Preferred Stock having one vote for each share of Preferred Stock held. As of March 31, 2017, the 695,898 issued shares of Preferred Stock constituted approximately 2.7% of the total number of shares of the Preferred Stock and the common stock, taken together. The Preferred Stock ranks senior to the common stock with respect to dividends. Holders of the Preferred Stock will be entitled to an annual cash dividend equal to \$0.16 per share of Preferred Stock, in preference to any dividend payment to the holders of the common stock. Holders of the Preferred Stock are also entitled to participate in any cash dividends we pay to the holders of the common stock and are also entitled to participate in any non-cash dividends we pay to holders of the common stock, subject to different treatment if we effect a stock dividend, stock split or combination of the common stock. The Preferred Stock will rank on a parity with the common stock with respect to rights upon our liquidation, winding up or dissolution. If we are a party to any merger or consolidation in which the common stock is changed into or exchanged for stock or other securities of any other person (or the Company) or cash or any other property (or a right to receive the foregoing), we will be required to use all

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commercially reasonable efforts to cause each outstanding share of the Preferred Stock to be treated as if such share were an additional outstanding share of common stock in connection with any such transaction. Any of the foregoing could have a material adverse effect on the holders of the common stock.

***Our quarterly operating results are volatile and may adversely affect the market price of our securities, and you may lose all or a part of your investment.***

We have experienced and expect to continue to experience significant fluctuations in our operating results because of seasonal fluctuations in traditional retail patterns. Our gross revenues have historically been significantly higher in the fourth calendar quarter of each year than in the following quarters due primarily to increased shopping activity during the holiday season. Further, we generally increase our inventories substantially in anticipation of holiday season shopping activity, which has a negative effect on our cash flow. In addition, our revenues and operating results have varied in the past and may continue to vary significantly from quarter to quarter due to a number of other factors, many of which are outside our control. In addition to seasonal effects and the other risk factors described in this report, factors that have caused and/or could cause our quarterly operating results to fluctuate and in turn affect the market price of our securities include:

•	increases in the cost of advertising and changes in our sales and marketing expenditures;
•	expenses we incur in our Medici development efforts
•	our inability to retain existing customers or encourage repeat purchases;
•	the extent to which our existing and future marketing campaigns are successful;
•	price competition that results in losses or lower profit margins;
•	the amount and timing of operating costs and capital expenditures relating to the expansion of our business operations and infrastructure;
•	the amount and timing of our purchases of inventory;
•	our inability to manage distribution operations or provide adequate levels of customer service;
•	increases in the cost of fuel and transportation;
•	our ability to successfully implement technology changes or to integrate operations and technologies from acquisitions or other business combinations;
•	our efforts to offer new lines of products and services; and
•	our ability to attract users to our shopping and other sites.

Any of the foregoing could have a material adverse effect on our financial results and business and particularly on our ability to raise capital, and could have a material adverse effect on the holders of our securities.

***Sales by our significant stockholders could have an adverse effect on the market price of our stock.***

A small number of our stockholders own significant percentages of our common stock and preferred stock. If one or more of them were to offer or sell all or a portion of their holdings, the market price of our common stock, preferred stock or both could be materially adversely affected. In addition, the transfer of ownership of a significant portion of our outstanding shares within a three-year period could adversely affect our ability to use our net operating losses to offset future taxable net income. Any of the foregoing could have a material adverse effect on the holders of our securities.

***We do not intend to pay dividends on our common stock and you may lose the entire amount of your investment in our common stock.***

We have never declared or paid any cash dividends on our common stock and do not intend to pay dividends on our common stock for the foreseeable future. We intend to invest our future earnings, if any, to fund our growth. Therefore, holders of our common stock will not receive any funds without selling their shares. You may not receive a positive return on your investment, and you may lose your entire investment.

***Provisions in our amended and restated certificate of incorporation and bylaws and Delaware law might discourage, delay or prevent a change of control of our company or changes in our management.***



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Our amended and restated certificate of incorporation and bylaws contain provisions that could discourage, delay or prevent a change in control of our company or changes in our management that the stockholders of our company may deem advantageous. These provisions among other things:

•	permit the board of directors to establish the number of directors;
•	provide that only one-third of our board of directors is elected at each of our annual meetings of stockholders (and our amended and restated certificate of incorporation prohibits cumulative voting in the election of directors);
•	mean that directors may be removed by the affirmative vote of the holders of the outstanding shares of common stock only “for cause;”
•	authorize the issuance of “blank check” preferred stock that our board could use to implement a stockholder rights plan (also known as a “poison pill”);
•	eliminate the ability of our stockholders to call special meetings of stockholders;
•	prohibit stockholder action by written consent, which requires all stockholder actions to be taken at a meeting of our stockholders;
•	provide that the board of directors is expressly authorized to make, alter or repeal our bylaws;
•	establish advance notice requirements, including specific requirements as to the timing, form and content of a stockholder’s notice, for nominations for election to our board or for proposing matters that can be acted upon by stockholders at annual stockholder meetings;
•	provide that special meetings of our stockholders may be called only by the board of directors, the chairman of the board, the chief executive officer or the president; and
•	provide that stockholders are permitted to amend the bylaws only with the approval of the holders of sixty-six and two-thirds percent (66-2/3%) of the voting power of outstanding capital stock entitled to vote at an election of directors.

In addition, Section 203 of the Delaware General Corporation Law may discourage, delay or prevent a change in control of our company. In general, Section 203 prohibits a publicly held Delaware corporation from engaging in a “business combination” with an “interested stockholder” for a period of three years following the date the person became an interested stockholder, subject to certain exceptions.

***Our board of directors could accelerate the vesting of outstanding restricted stock units upon a sale of the company or otherwise, which could result in an increase in the number of shares outstanding.***

Our board has granted, and in the future expects to make additional grants, of restricted stock units (“RSUs”) to certain of our employees and directors. Upon vesting, one share of our common stock is issued for every RSU held. Under the terms of these grants, the board could determine to accelerate the vesting of RSUs in the event of a sale of our company or otherwise, which would result in an increase in the number of shares outstanding, and would dilute shareholders’ ownership of our company. Although the number of RSUs outstanding changes frequently, the aggregate amount outstanding as of March 31, 2017 was approximately 2.3% of the number of shares of common stock outstanding.

***We have issued and in the future may again issue preferred stock as authorized by our amended and restated certificate of incorporation without further stockholder approval for purposes of a stockholder rights plan or for other purposes, and any such preferred stock could entitle the holders to rights superior to those of the holders of our common stock.***

Our amended and restated certificate of incorporation authorizes our Board to designate and issue preferred stock on such terms as may be approved by the Board without further stockholder approval. In addition to the possibility that the Board could do so in connection with the adoption of a stockholder rights plan as described above, the Board has done so and could do so again for a variety of other purposes.

***We generally have not received significant coverage by securities analysts, and the lack of coverage may adversely affect our share price and trading volume.***

We generally have not received significant coverage by securities analysts, and the lack of coverage may adversely affect our share price and trading volume. The lack of coverage may cause our share price or trading volume to be lower than they might be if more analysts covered us.

**Additional Risks Related Primarily to our Series A Preferred Stock**

***The Series A Preferred and the tØ Platform are novel, and the use of the PRO Securities ATS utilizing the tØ Platform for trading public digital securities was untested prior to the December 2016 closing of the offering of the Series A Preferred.***

Trades in publicly traded securities currently generally take place through the continuous net settlement system operated by The Depository Trust Company (“DTC”). The Series A Preferred does not trade or settle through the system operated by the DTC. Instead, shares of Series A Preferred trade exclusively on a registered alternative trading system (the “PRO Securities ATS”) operated by our indirect majority-owned subsidiary PRO Securities LLC (“PRO Securities”) utilizing technology known as the tØ Issuance and Trading Platform (the “tØ Platform”). Shares of Series A Preferred can be held only in an online brokerage account with Keystone Capital Corporation (“Keystone”). Unlike trades through the system operated by the DTC, trades of the Series A Preferred settle on the trade date. The tØ Platform is a recent development, licensed by PRO Securities from our majority-owned subsidiary tØ.com, Inc. (“tØ.com”), and the tØ Platform had not been tested with public trading of digital securities prior to the closing of the offering of the Series A Preferred in December 2016. Consequently, investors in the Series A Preferred bear the risks of investing in a novel type of security that trades exclusively on a novel type of trading platform and that is subject to a number of unusual restrictions, as well as the risks of investing in our business. Any failure of the PRO Securities ATS or of the tØ Platform to perform as expected could have a material adverse effect on holders’ ability to sell the Series A Preferred.

***The Series A Preferred is not and will not be listed on any securities exchange, and prior to the rights offering there was no trading market for the Series A Preferred and an active trading market may not develop.***

The Series A Preferred is a new issue of securities that may be traded only on an unprecedented trading platform. Prior to the rights offering there was no established trading market for the Series A Preferred, and no digital security had ever been publicly traded on the PRO Securities ATS or utilizing the tØ Platform. As of April 24, 2017 only 149 persons had opened an online brokerage account with Keystone for the purpose of acquiring and holding shares of Series A Preferred, including persons who opened accounts in order to participate in the rights offering, and a very small number of trades in the Series A Preferred had taken place since the closing of the rights offering in December 2016. The Series A Preferred is not and will not be listed on any securities exchange or any other market of any kind, other than the PRO Securities ATS utilizing the tØ Platform. Even if a trading market for the Series A Preferred does develop on the PRO Securities ATS utilizing the tØ Platform, the depth and liquidity of that market and the ability of the holders to sell the Series A Preferred may nevertheless be very limited, which may have a material adverse effect on holders of the Series A Preferred.

***The technology on which the tØ Platform depends has been developed by our majority-owned subsidiary, tØ.com, and is licensed by its subsidiary, PRO Securities, and the Series A Preferred depends on both tØ.com and on PRO Securities, neither of which has substantial resources.***

tØ.com is a majority-owned subsidiary of ours and owns 100% of the equity interest in PRO Securities. tØ.com licenses the tØ Platform to PRO Securities, and PRO Securities operates the PRO Securities ATS. tØ.com also licenses the tØ Platform to the Company for the Company’s use in connection with the Series A Preferred. Neither tØ.com nor PRO Securities has substantial resources. PRO Securities had net capital of approximately \$56,568 at March 31, 2017. Neither tØ.com nor PRO Securities has any legally binding commitment from any person, including the Company, to contribute additional capital or to make any loan to either of them. If any one or more of the Company, tØ.com or PRO Securities were unable to fund its operations in the future, or if any one or more of them were to become the subject of a bankruptcy or other insolvency proceeding, PRO Securities might be unable to continue to operate the tØ Platform, and the Series A Preferred could be materially adversely affected. In any such event, holders of our capital stock, including the Series A Preferred, could lose their entire investment in our capital stock, including all amounts invested in the Series A Preferred.

***The requirement that each prospective purchaser of Series A Preferred open and maintain an online brokerage account with Keystone limits the number of potential purchasers.***

In order to trade in the Series A Preferred, a prospective purchaser is required to open an online brokerage account with Keystone Capital Corporation (“Keystone”), and it is possible that very few prospective purchasers will ever do so. Consequently, we expect liquidity in the Series A Preferred to be very limited, which could have a material adverse effect on holders’ ability to trade the Series A Preferred.

***Accounts for the Series A Preferred are held directly in the customer's name, rather than in "street name."***

Each investor in the Series A Preferred is required to open an online brokerage account in his, her or its name with Keystone. Investors cannot hold their Series A Preferred in "street name." The Series A Preferred shares are directly recorded on our stockholder books and records maintained by Computershare Trust Company, N.A. ("Computershare"). We expect that many potential investors will not hold securities in their own names and therefore will not invest in the Series A Preferred. In addition, as a result of this requirement, individual retirement accounts and other fiduciary or nominee accounts including 401(k) accounts are unable to acquire shares of Series A Preferred (although custodial accounts for minors are permitted if the custodian would qualify to purchase shares of Series A Preferred on its own behalf, subject to certain restrictions). We expect that these limitations will further limit liquidity in the Series A Preferred, and the limitations may have a material adverse effect on the development of any trading market in the Series A Preferred.

***The complete trading history of each digital wallet will be available to the general public and it may be possible for members of the public to determine the identity of the holders of wallets.***

The tØ Platform makes trade data publicly available shortly after each trade. Although the trade data that the tØ Platform makes publicly available is anonymous, the publicly available information includes the digital wallet address (the location where records of transactions and balances involving the series A Preferred are stored) of each holder transacting in Series A Preferred, and the entire trading history of each digital wallet (including the number of securities traded by each digital wallet, the price of each trade and the balance of the securities held in each digital wallet). As a result, the trading history of each digital wallet is available to the general public. It may be possible for members of the public to determine the identity of the holders of certain wallets based on the information that the tØ Platform makes publicly available and other publicly available information, including any ownership reports required to be filed with the SEC regarding the Series A Preferred. In addition, under Delaware law stockholders have certain rights to inspect and copy a corporation's stock ledger and a list of its stockholders. Delaware law also requires the Company to make lists of its stockholders, including the number of shares held, available for inspection by stockholders of the Company in connection with stockholder meetings. These lists disclose the identity of stockholders of record. Because all holders of the Series A Preferred will be holders of record, all of them will be subject to the risk of loss of their anonymity. Potential investors who desire to execute their trades in relative anonymity may find these aspects of the tØ Platform unattractive, which may further limit liquidity in the Series A Preferred, and may have a material adverse effect on the development of any trading market in the Series A Preferred.

***Only certain persons and entities are able to acquire Series A Preferred.***

Only certain persons and entities may purchase Series A Preferred. We expect that these limitations will limit liquidity in the Series A Preferred, and the limitations may have a material adverse effect on the development of any trading market in the Series A Preferred.

***The Series A Preferred and any development of a trading market for the Series A Preferred depends on both Keystone and its clearing broker, ETC.***

The Series A Preferred depends on the continuing business operations of both Keystone and Electronic Transaction Clearing, Inc. ("ETC"). Keystone is the only broker dealer authorized to provide the accounts required to acquire, hold and trade shares of Series A Preferred, and ETC is the clearing broker for Keystone with respect to the Series A Preferred. Any failure of either Keystone or ETC to continue operating its business in the ordinary course or to satisfactorily perform their respective obligations could require PRO Securities to engage a substitute broker dealer to perform the functions we expect Keystone to perform, and Keystone or such substitute broker dealer might need to engage a substitute clearing broker. PRO Securities or Keystone may not be able to do so on a timely basis or at all. A transition from Keystone to a replacement broker dealer or from ETC to a replacement clearing broker would be a lengthy process, during which time it would be impossible to trade Series A Preferred.

***A violation of privacy or data protection laws could have a material adverse effect on PRO Securities, tØ.com or other entities, the tØ Platform and the Series A Preferred.***

PRO Securities, tØ.com and other entities relevant to the operation of the PRO Securities ATS utilizing the tØ Platform, including Keystone, ETC and Computershare, are subject to applicable privacy and data protection laws and regulations. Any violations of laws and regulations relating to the safeguarding of private information could subject us or any of

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them to fines, penalties or other regulatory actions, as well as to civil actions by affected parties. Any such violations could adversely affect the ability of PRO Securities to operate the PRO Securities ATS or to use the tØ Platform, either of which could have a material adverse effect on holders' ability to trade Series A Preferred.

***PRO Securities, tØ.com, the PRO Securities ATS, the tØ Platform and the other entities relevant to the operation of the PRO Securities ATS are subject to cyberattacks, security risks and risks of security breaches.***

PRO Securities, tØ.com, the PRO Securities ATS, the tØ Platform and the other entities relevant to the operation of the PRO Securities ATS utilizing the tØ Platform, including Keystone, ETC and Computershare, are all subject to cyberattacks, security risks and risks of security breaches. An attack on any of them or a breach of security of any of them could result in a loss of private data, unauthorized trades, and an interruption of trading for an extended period of time. Any such attack or breach could adversely affect the ability of PRO Securities to operate the PRO Securities ATS or to utilize the tØ Platform, or both, any of which could have a material adverse effect on holders' ability to trade the Series A Preferred. Any breach of data security that compromises the security of any of the private digital keys used to authorize or validate transaction orders, or that enables any unauthorized person to generate any of the private digital keys, could result in unauthorized trades and would have a material adverse effect on the Series A Preferred. Because trades on the PRO Securities ATS utilizing the tØ Platform settle on the trade date, it could be impossible to correct unauthorized trades.

***In the event of the insolvency of Keystone or ETC, the Securities Investor Protection Corporation would be unable to cause the return of shares of Series A Preferred until a substitute for Keystone or ETC, as applicable, was in place.***

The Securities Investor Protection Corporation ("SIPC") oversees the liquidation of member broker dealers that close when the broker dealer is bankrupt or in financial trouble, and customer assets are missing. In a liquidation under the Securities Investor Protection Act, SIPC and a court-appointed trustee typically work to return customers' securities and cash. Within limits, SIPC expedites the return of missing customer property by protecting each customer up to \$500,000 for securities and cash (including a \$250,000 limit for cash only). If Keystone or ETC were to become insolvent, the structure of the trading system for the Series A Preferred could cause delays in the return of Series A Preferred until a substitute for Keystone or ETC, as applicable, was in place, which could have a material adverse effect on holders of Series A Preferred.

***Certain transactions involving the Series A Preferred will require manual intervention, which could result in errors.***

All ordinary course Series A Preferred purchase and sale transactions initiated by purchasers and sellers through their Keystone accounts are executed on the PRO Securities ATS utilizing the automated processes of the tØ Platform, without separate manual intervention by any of the relevant parties. Extraordinary transactions, however, may require manual intervention, which would be initiated by employees of ETC through the tØ Platform. For example, a unilateral transfer to a specific transferee, such as gift to a family member or charity, or an involuntary transfer pursuant to a court order, will require such manual intervention. In any situation involving manual intervention, there is a risk of human error. The same-day settlement of trades on the PRO Securities ATS utilizing the tØ Platform also means that any error not detected promptly on the trade date may be impossible to correct, which could have a material adverse effect on holders of Series A Preferred.

***The same-day settlement of trades on the PRO Securities ATS utilizing the tØ Platform may make it impossible to correct trading errors in the Series A Preferred.***

Trades on the PRO Securities ATS utilizing the tØ Platform settle on the trade date rather than on a three-day (or T+3) basis. This may make it impossible to correct trading errors that might have been corrected prior to settlement under a T+3 system. Consequently, persons acquiring shares of Series A Preferred must accept the risk that correction of any trading errors may be impossible. The occurrence of any such trading error could have a material adverse effect on any affected holder of Series A Preferred. Further, in the future ETC's custody and settlement systems may be able to move funds between customer accounts in near real-time after order executions are recorded by the PRO Securities ATS on the electronic data store in which the ownership and transfer of the Series A Preferred are recorded (the "Proprietary Ledger"), which could result in near-real time settlement. Near-real time settlement would further increase the risk that correction of trading errors may be impossible, and could have a material adverse effect on any affected holder of Series A Preferred.

***The technology on which the tØ Platform depends is in an area in which tØ.com and PRO Securities have limited experience.***

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Neither tØ.com nor PRO Securities has significant experience with the technology on which the tØ Platform depends or the operation of the tØ Platform. Portions of the technology utilized by the tØ Platform have been developed by tØ.com very recently. Any problems tØ.com or PRO Securities encounters with the operation of the tØ Platform, including technical, legal and regulatory problems, could have a material adverse effect on holders of the Series A Preferred.

***tØ.com may continue to modify the tØ Platform, and any such modifications could require periods of downtime during which trading on the PRO Securities ATS might be suspended.***

tØ.com developed the tØ Platform recently and intends to continue to work on enhancements to the tØ Platform. The continued development of enhancements to the tØ Platform or other modifications of the tØ Platform could cause service interruptions and interruptions in trading on the PRO Securities ATS, which could make it impossible to trade the Series A Preferred from time to time. Any such interruptions could occur with little or no notice, which could have a material adverse effect on holders of the Series A Preferred.

***Our use of the Bitcoin blockchain to enable members of the public to confirm that the public copies of the Proprietary Ledger have not been altered depends on the continued availability and functioning of the Bitcoin blockchain.***

The Series A Preferred trade exclusively on the PRO Securities ATS utilizing the tØ Platform. The tØ Platform embeds a digital fingerprint in the Bitcoin blockchain that may be used to confirm that the public copies of the Proprietary Ledger have not been altered. No person, business, governmental authority or other entity or authority of any kind has any obligation to provide any financial, technical or other support to the continued operation or development of blockchain technology. If the Bitcoin blockchain were to become unavailable to us in its current form and functionality for any reason, we would need to use a different publicly distributed ledger, which could make it more difficult for members of the public to confirm that the public copies of the Proprietary Ledger have not been altered, which could have a material adverse effect on the holders of the Series A Preferred.

***Trading in the Series A Preferred depends on the operation and functionality of the PRO Securities ATS, on tØ.com's proprietary tØ Platform and on the Proprietary Ledger.***

The Series A Preferred trades exclusively on the PRO Securities ATS utilizing the tØ Platform. The ATS is operated and maintained by PRO Securities, and the tØ Platform is maintained by tØ.com. Each of PRO Securities and tØ.com is a direct or indirect majority-owned subsidiary of the Company, and neither of them has substantial resources. If the PRO Securities ATS or the tØ Platform were to fail to operate as intended for any reason, trading in the Series A Preferred could be impossible until the failure were corrected and full functionality of the affected system or systems were restored and tested. Further, if the Proprietary Ledger were to fail to operate as intended, or were to become unavailable to us in its current form and functionality for any reason, the tØ Platform might be unable to publish trade data or to provide trade data to ETC and to the transfer agent. Any of the foregoing could have a material adverse effect on our ability to execute or settle trades of Series A Preferred, to maintain accurate records of the ownership of the Series A Preferred and to comply with our obligations relating to records of the ownership of the Series A Preferred and a material adverse effect on the holders of the Series A Preferred.

***The Series A Preferred depends on Computershare as the transfer agent for the Series A Preferred.***

Computershare serves as the transfer agent for both the Series A Preferred and the Series B Preferred. If Computershare were unable or unwilling for any reason to serve as the transfer agent for the Series A Preferred, trading in the Series A Preferred would be impossible unless we were able to locate another transfer agent able and willing to serve as a replacement transfer agent for the Series A Preferred. We estimate that a transition from Computershare to a replacement transfer agent would take approximately three months; however, any such transition could take longer, during which time it would be impossible to trade in the Series A Preferred, which would have a material adverse effect on the holders of the Series A Preferred.

***The tØ Platform relies on technology and intellectual property rights licensed from tØ.com to PRO Securities.***

The ability of PRO Securities to operate the PRO Securities ATS utilizing the tØ Platform depends on technology and intellectual property rights that PRO Securities licenses from our majority-owned subsidiary tØ.com. Keystone, ETC and Computershare, in the performance of their respective obligations, also depend on the technology and intellectual property rights that they license (or have licensed on their behalf) from tØ.com. tØ.com has filed both provisional and non-provisional

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patent applications covering numerous aspects of the technology relating to the tØ Platform, none of which have been granted. We believe that a number of organizations are or may be working to develop trading systems utilizing distributed ledger or blockchain technologies that may be competitive with the tØ Platform. Some or all of such organizations and/or their respective investors have substantially greater resources than tØ.com or we have, and many or all of them may be attempting to patent technologies that may be competitive with or similar to the technology tØ.com has developed. If third parties obtain patents covering any or all of the technology relating to the tØ Platform, or if the rights of tØ.com to the technology or intellectual property necessary for the operation of the tØ Platform were otherwise invalidated or limited, or if tØ.com were to fail to comply with its obligations under the applicable license agreement, or for any other reason were unable to provide the technology and intellectual property that PRO Securities requires, PRO Securities would be unable to operate the PRO Securities ATS utilizing the tØ Platform, which would have a material adverse effect on the holders of the Series A Preferred.

### ***The potential application of U.S. laws regarding traditional investment securities to the Series A Preferred is unclear.***

The commercial law regarding traditional investment securities in the United States is well-developed. Article 8 of the Uniform Commercial Code as adopted in most states, including Delaware, provides a set of rules that governs common aspects of securities transfers and related matters. Because of the differences between the Series A Preferred and traditional investment securities, there is a risk that issues that might easily be resolved by existing law if traditional securities were involved may not be easily resolved for the Series A Preferred. The occurrence of any such issue or dispute could have a material adverse effect on the holders of Series A Preferred.

### ***The potential application of U.S. laws regarding virtual currencies and money transmission to PRO Securities' use of the Bitcoin blockchain is unclear.***

Existing state and federal laws applicable to various activities of persons exchanging or otherwise using virtual currencies, in some cases expressly including Bitcoin, impose prohibitions and require licensing or registration requirements and impose substantive regulations on such persons. Many more states impose licensing and substantive regulation on persons engaging in various activities relating to money transmission, some of which do or may apply to the transmission of virtual currencies such as Bitcoin. The failure to be properly licensed and registered if required under any of these state or federal laws can be a criminal offense. The tØ Platform uses the Bitcoin blockchain for the purpose of enabling members of the public to confirm that the public copies of the Proprietary Ledger have not been altered. The tØ Platform does not use the Bitcoin blockchain for any purpose of transmitting value and does not transmit Bitcoin to any third party; rather, the tØ Platform simply transmits nominal amounts of Bitcoin to itself in order to embed data relating to Series A Preferred transactions into the Bitcoin blockchain. None of the parties involved in the operation of the tØ Platform is licensed under the virtual currency or money transmission regulations of any state in the United States or registered with the Financial Crimes Enforcement Network ("FinCEN") of the U.S. Department of the Treasury. Although we do not believe that the operation of the tØ Platform requires such licensing or registration, if any regulatory authority were to assert otherwise, it could have a material adverse effect on the ability of the parties involved in the operation of the tØ Platform to publish Series A Preferred trade data to the Bitcoin blockchain, which could have a material adverse effect on the holders of the Series A Preferred.

### ***The potential application of foreign laws to the tØ Platform is unclear.***

Any person opening an account with Keystone will be required to represent that doing so and acquiring shares of Series A Preferred will not cause a violation of any law, rule or regulation of any jurisdiction outside of the United States and will not subject us or PRO Securities or the tØ Platform to regulation by any authority in any jurisdiction outside of the United States. We are also limiting purchasers of Series A Preferred to certain U.S. residents, entities and trusts. If we became subject to any law, rule or regulation of any jurisdiction outside of the United States, it could have a material adverse effect on the ability of PRO Securities to operate the tØ Platform and on the Series A Preferred, which would have a material adverse effect on the holders of the Series A Preferred.

### ***Regulatory or factual developments may adversely affect the tØ Platform.***

Neither PRO Securities nor tØ.com is registered as a transfer agent under the Exchange Act. If PRO Securities or tØ.com were required to register as a transfer agent, the process would be expensive and one or both entities might be unable to do so. Further, future regulatory developments could otherwise affect the tØ Platform or the ability of PRO Securities to operate the tØ Platform. To the extent that any current or future regulatory requirements adversely affect the ability of PRO Securities to operate the tØ Platform or its ability to utilize the Bitcoin blockchain, such regulatory requirements would have a material

adverse effect on the holders of the Series A Preferred.

***PRO Securities is involved in an ongoing dialog with regulatory authorities.***

PRO Securities has been and remains involved in ongoing discussions with regulatory authorities about the operation of the PRO Securities ATS utilizing the tØ Platform and various matters relating to the regulated entities involved. While many of the discussions have been relatively informal, PRO Securities has also received and responded to written inquiries, and most recently received and responded to additional written inquiries from FINRA. While we consider these continuing inquiries to be ordinary course in light of the non-traditional nature of the registered alternative trading system operated by PRO Securities utilizing the tØ Platform, any failure of PRO Securities to satisfy FINRA or any other regulatory authority that PRO Securities is in compliance with all applicable rules and regulations could have a material adverse effect on the holders of the Series A Preferred.

***Holders of Series A Preferred are at risk of fee and commission increases by Keystone.***

At present the tØ Platform does not allow more than a single broker dealer to provide access to the system. The lack of an alternative broker dealer to provide access to the tØ Platform may subject customers to the risk of fee and commission increases by Keystone. Keystone has agreed to limits on the fees and commissions it will charge to customers who trade shares of the Series A Preferred; however, if PRO Securities and tØ.com agree to amend the relevant agreements to permit increases to those limits, or if such agreements or the provisions regarding such matters were ineffective for any reason, it could have a material adverse effect on holders of the Series A Preferred.

***We have the right to convert the outstanding shares of Series A Preferred into shares of Series B Preferred at any time, even if the Series B Preferred is trading for substantially less than the Series A Preferred.***

We have the right to cause the conversion of all outstanding shares of Series A Preferred into shares of Series B Preferred at any time. If we were to do so at a time when the Series B Preferred were trading at a price lower than the trading price of the Series A Preferred, holders of Series A Preferred would likely experience an immediate and potentially material decrease in the market value of the Series A Preferred they hold and of the Series B Preferred they would receive upon the conversion. Investors should not purchase shares of Series A Preferred unless they are willing to hold shares of Series B Preferred in lieu of shares of Series A Preferred.

***The terms of the Series B Preferred could be amended after the issuance of the Series B Preferred without the consent of the holders of the Series A Preferred.***

The terms of the Series B Preferred may be amended at any time without the consent of the holders of the Series A Preferred. Nevertheless, we will have the right to cause the conversion of all outstanding shares of Series A Preferred into shares of Series B Preferred at any time. Consequently, holders of Series A Preferred are subject to the risk that their shares could be converted into shares of Series B Preferred having terms different from those of the Series B Preferred at the date of its issuance or at the date of a holder's acquisition of Series A Preferred. Any such amendment of the Series B Preferred could have a material adverse effect on holders of Series A Preferred.

***The restrictions on the tax reporting of holder's cost basis in shares of Series A Preferred will not allow normal tax planning in the sale of shares of Series A Preferred, and may result in disadvantageous tax consequences to a seller of Series A Preferred.***

Taxpayers must report gains and losses on sales of securities, and related cost basis information when they file their income tax returns. Brokers, including Keystone, also have a requirement to report sales information to the IRS. Holders of most securities typically can elect one of several methods permitted by the IRS for their reporting of their cost basis in securities. However, only one method of cost basis reporting (the first-in, first-out, or FIFO, method) is available for the Series A Preferred. Sellers of Series A Preferred will not be able to elect any method other than FIFO to report their sales information to the IRS. As a result, sellers of Series A Preferred may be required to pay more tax on their sales or to pay taxes earlier than might have been required if other methods of cost basis reporting had been available, which could have a material adverse effect on the holders of Series A Preferred.

**Additional Risks Related to our Series A Preferred Stock and our Series B Preferred Stock**

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***We do not intend to issue any additional shares of either Series A Preferred or Series B Preferred, which is expected to result in very limited trading in each series.***

Although we have the right to convert the outstanding shares of Series A Preferred into Series B Preferred, we do not intend to issue any additional shares of Series A Preferred or any additional shares of Series B Preferred. Consequently, we expect trading of the Series A Preferred and the Series B Preferred to be limited to the shares we issued in the rights offering. As a result, trading in the Series A Preferred and the Series B Preferred may be very limited.

***We do not expect there to be any market makers to develop a trading market in the Series A Preferred, and there is only one market maker in the Series B Preferred.***

Most securities that are publicly traded in the United States have one or more broker dealers acting as “market makers” for the security. A market maker is a firm that stands ready to buy and sell the security on a regular and continuous basis at publicly quoted prices. Currently, to our knowledge, there is only one market maker in the Series B Preferred. Further, we do not believe that the Series A Preferred will ever have any market makers. We expect the lack of market makers to contribute to a lack of liquidity in the Series A Preferred and in the Series B Preferred, which could have a material adverse effect on holders’ ability to trade either of them.

***Rule 144 will not be available for resales of “restricted shares” of Series A Preferred, and Rule 144 volume limitations on resales of Series B Preferred would be very low.***

Persons, including non-affiliates of a public company such as the Company, who acquire shares directly or indirectly from the public company, or from an affiliate of the public company, in a transaction or chain of transactions not involving any public offering, acquire “restricted shares” for purposes of Rule 144. Although Rule 144 permits public sales of “restricted shares” subject to certain conditions, we do not expect Rule 144 ever to be available for any sales of Series A Preferred. Because all of the shares of Series A Preferred and Series B Preferred were issued in a registered public offering, and because we expect to register the resale of shares of Series A Preferred and Series B Preferred by our affiliates, we do not anticipate that any outstanding shares of Series A Preferred or Series B Preferred will be “restricted” for purposes of Rule 144. However, any person who acquires any shares of Series A Preferred or Series B Preferred in any manner described in the definition of “restricted securities” in Rule 144, will acquire “restricted” shares. We do not expect Rule 144 ever to be available for public resales of any shares of Series A Preferred, and the sale of any such shares may be difficult or impossible. Further, because of the limited number of shares of Series B Preferred outstanding, sales of Series B Preferred under Rule 144 may also be severely limited.

***We will have an economic incentive to repurchase Series A Preferred and Series B Preferred at prices below the redemption price, and our doing so could cause the trading prices of Series A Preferred and Series B Preferred, as applicable, to decrease further.***

We do not currently intend to repurchase any of the Series A Preferred or Series B Preferred. However, we could do so, subject to applicable laws and regulations regarding issuer repurchases of their capital stock. If we repurchase any shares, we would do so only at prices lower than the prices at which we might be entitled to redeem the shares. Because our right to redeem the Series A Preferred and the Series B Preferred will be at prices that will vary with the price of our common stock as well as the prices of the Series A Preferred and the Series B Preferred, respectively, and in any case would be no less than the Subscription Price, we will have an economic incentive to repurchase the shares at their trading prices from time to time if those prices are lower than the prices at which we would be entitled to redeem the shares. If we repurchase (or redeem) shares of either Series A Preferred or Series B Preferred, the trading market for the shares would become less liquid, which could cause the trading prices to decrease further, giving us an economic incentive to repurchase additional shares. The occurrence of the foregoing could have a material adverse effect on holders of Series A Preferred, the holders of Series B Preferred, or both.

***A share of Series A Preferred and/or Series B Preferred may have a substantially lower market value than a share of our common stock.***

The trading prices of the Series A Preferred and the Series B Preferred may be substantially lower than the trading price of our common stock at any time. The market for the Series B Preferred is expected to have substantially less liquidity than the market for our common stock, which is traded on the Nasdaq Global Market, and the market for the Series A Preferred may be even more limited. The Series B Preferred trades in the over-the-counter market rather than on any securities exchange,



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and the Series A Preferred trades exclusively on the PRO Securities ATS utilizing the tØ Platform, which is a closed trading platform that had not experienced public trading in any security prior to the issuance of the Series A Preferred. Consequently, the trading prices of the Series A Preferred and the Series B Preferred may both be substantially lower than the trading price of our common stock, which could have a material adverse effect on holders of Series A Preferred and holders of Series B Preferred.

***Holders of Series A Preferred and/or Series B Preferred have no rights with respect to our common stock, but they may be adversely affected by certain events or changes made with respect to our common stock.***

Holders of our Series A Preferred and our Series B Preferred have no rights with respect to our common stock, and no right to convert their Series A Preferred or Series B Preferred into shares of common stock or to exchange their Series A Preferred or Series B Preferred for shares of common stock, except that such holders have the right to vote with the common stock (together with the holders of the other series of Preferred Stock) on any matter submitted to a vote of the holders of the common stock, the right to receive payments upon liquidation with the holders of the common stock (together with the holders of the other series of Preferred Stock) and the right to receive dividends (together with the holders of the other series of Preferred Stock) in preference to the holders of the common stock and to participate in cash dividends, if any, paid on the common stock. Holders of Preferred Stock do not have other rights of the holders of the common stock, including the right to respond to common stock tender offers, if any, and their investment in the Series A Preferred and/or the Series B Preferred may be materially negatively affected by any such event. Holders' lack of any such rights, or the occurrence of any such event, could have a material adverse effect on holders of Series A Preferred and holders of Series B Preferred.

***Voting rights of holders of Preferred Stock generally will be limited to voting together with the holders of the common stock as a single class, and the holders of the Series A Preferred and the holders of the Series B Preferred collectively will have only a small percentage of the voting power on any matter submitted to the holders of the common stock and the Series A Preferred and Series B Preferred, voting together as a single class.***

Voting rights of holders of Preferred Stock generally will be limited to voting together with the holders of the common stock as a single class. Neither the holders of the Series A Preferred nor the holders of the Series B Preferred have any right by themselves, either together or as separate classes, to elect any members of our board of directors. As of March 31, 2017, the 695,898 shares of Preferred Stock outstanding represented approximately 2.7% of the combined voting power of the Series A Preferred, the Series B Preferred and the common stock, voting together as a single class. If an amendment requiring stockholder approval is proposed to our Amended and Restated Certificate of Incorporation or our Amended and Restated Bylaws, the holders of the Series A Preferred and the holders of the Series B Preferred will vote together with the holders of the common stock as a single class, but neither the holders of the Series A Preferred nor the holders of the Series B Preferred will be entitled to a class vote on the amendment, unless the proposed amendment would adversely affect the special rights, preferences, privileges and voting powers of the Series A Preferred or Series B Preferred, respectively. Holders' limited voting rights and any of the foregoing events could have a material adverse effect on holders of Series A Preferred and holders of Series B.

***The Series A Preferred and the Series B Preferred rank junior to all of our and our subsidiaries' liabilities, as well as the capital stock of our subsidiaries held by third parties, in the event of a bankruptcy, liquidation or winding up of our or our subsidiaries' business.***

In the event of our bankruptcy, liquidation or winding up, our assets will be available to make payments to holders of Series A Preferred and to holders of Series B Preferred only after all of our liabilities have been paid, and neither the Series A Preferred nor the Series B Preferred will have any preference over the common stock in the event of our bankruptcy, liquidation or winding up. In addition, the Series A Preferred and Series B Preferred will rank structurally junior to all existing and future liabilities of our subsidiaries, as well as the capital stock of our subsidiaries held by third parties, including employees holding shares of our majority-owned subsidiary tØ.com and employees holding shares of any other direct or indirect subsidiary of ours, whether now existing or created in the future. Any bankruptcy, liquidation or winding up of the Company or any of its wholly or partially owned subsidiaries would have a material adverse effect on holders of Series A Preferred and holders of Series B Preferred.

***Our obligation to pay dividends on the Series A Preferred or on the Series B Preferred is limited, and our ability to pay dividends on the Series A Preferred and on the Series B Preferred may be limited.***

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Our obligation to pay preferential dividends on the Series A Preferred and the Series B Preferred is subject to our board of directors declaring such dividend payments. Further, although we will be contractually restricted from paying a dividend on the common stock unless we have paid preferential cumulative 1.0% annual dividends on the Series A Preferred and the Series B Preferred, we have never paid a dividend on the common stock and we have no current intent to do so. Consequently, our failure to pay preferential dividends on the Series A Preferred and on the Series B Preferred might have no legal effect on us at all, although it could adversely affect the trading prices of the Series A Preferred and of the Series B Preferred. Further, our payment of any dividends will be subject to contractual and legal restrictions and other factors the board deems relevant. Our current credit agreement contains financial covenants that could limit our ability to pay dividends. The calculations that go into the financial covenants cannot necessarily be estimated in advance, and we may not be able to pay dividends on the Series A Preferred, the Series B Preferred or both without violating our current credit agreement. Further, we may elect not to pay dividends on the Series A Preferred, the Series B Preferred or both rather than limiting other proposed expenditures, including expenditures that may not be contractually required, to avoid violating, or minimize the risk of violating, our current credit agreement. Moreover, agreements governing any future indebtedness of ours may further limit our ability to pay dividends on our capital stock, including the Series A Preferred and the Series B Preferred. In addition, our ability to pay dividends is limited by applicable law. Any of the foregoing could have a material adverse effect on the holders of the Series A Preferred and the holders of the Series B Preferred.

***Purchasers of the Series A Preferred and of the Series B Preferred may be adversely affected by our issuance of any subsequent series of preferred stock.***

Neither the terms of the Series A Preferred nor the terms of the Series B Preferred restrict our ability to issue one or more additional new series of preferred stock, any or all of which may rank equally with or have preferences over the Series A Preferred and the Series B Preferred as to dividend payments, voting rights, rights upon liquidation or other types of rights. We will have no obligation to consider the specific interests of the holders of Series A Preferred or the specific interests of the holders of Series B Preferred in creating any such new series of preferred stock or engaging in any such offering or transaction. Our creation of any such new series of preferred stock or our engaging in any such offering or transaction could have a material adverse effect on the holders of Series A Preferred and the holders of Series B Preferred.

***It is uncertain whether the IRS will treat the Series A Preferred and Series B Preferred as common stock or preferred stock for U.S. federal income tax purposes.***

We intend to treat the Series A Preferred and Series B Preferred as common stock for U.S. federal income tax purposes. Nevertheless, it is unclear whether the IRS will treat the Series A Preferred and Series B Preferred as common stock for U.S. federal income tax purposes. If the IRS were not to treat either the Series A Preferred or the Series B Preferred as common stock for U.S. federal income tax purposes, it could have a material adverse effect on the holders of Series A Preferred and the holders of Series B Preferred.

## **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

### *Issuer purchases of equity securities*

The following table sets forth all purchases made by us or on our behalf or any "affiliated purchaser" as defined in Rule 10b-18(a)(3) under the Exchange Act, of shares of our common stock made during each month within the first quarter of 2017, including all purchases made pursuant to publicly announced plans or programs and those not made pursuant to publicly

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announced plans or programs.

<b>Period</b>	<b>(a) Total Number of Shares Purchased</b>	<b>(b) Average Price Paid per Share</b>	<b>(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>(d) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plan</b>
January 1, 2017 to January 31, 2017	604,229	\$ 16.55	604,229	\$ 15,000,000
February 1, 2017 to February 28, 2017	—	—	—	—
March 1, 2017 to March 31, 2017	—	—	—	—
<b>Total</b>	<b>604,229</b>		<b>604,229</b>	<b>\$ 15,000,000</b>

*Limitations upon the payment of dividends*

We have never declared or paid any cash dividends on our common stock. We currently intend to retain any earnings for future growth and do not anticipate paying any cash dividends on our common stock in the foreseeable future. Any future determination to pay dividends on our common stock will be at the discretion of our board of directors and will depend on our results of operations, financial conditions, contractual and legal restrictions and other factors the board of directors deems relevant. Our loan agreement with U.S. Bank and other banks contains financial covenants that may restrict our ability to pay dividends.

In December 2016, we issued a total of 695,898 shares of our preferred stock (the “Preferred Stock”). The Preferred Stock ranks senior to our common stock with respect to dividends. Holders of the Preferred Stock are entitled to an annual cash dividend of \$0.16 per share, in preference to any dividend payment to the holders of the common stock, out of funds legally available for payment of dividends and subject to declaration by our board of directors. Holders of the Preferred Stock are also entitled to participate in any cash dividends we pay to the holders of the common stock and are also entitled to participate in non-cash dividends we pay to holders of the common stock, subject to potentially different treatment if we effect a stock dividend, stock split or combination of the common stock.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

### ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

### ITEM 5. OTHER INFORMATION

None.

### ITEM 6. EXHIBITS

<b>(a)</b>	<b>Exhibits</b>
*3.1	Amended and Restated Bylaws.
4.1	Registration Rights Agreement dated December 15, 2016 by and among Overstock.com, Inc. and Patrick M. Byrne, individually and as representative of each of the Participating Affiliates (as defined therein) (incorporated by reference to Exhibit 4.1 to our Current Report on Form 8-K filed on December 15, 2016 (File No. 000-49799)).
*4.2	Amendment No. 1 to Registration Rights Agreement effective March 10, 2017 by and among Overstock.com, Inc. and Patrick M. Byrne, individually and in his representative capacity.
4.3	First Amendment to Loan Agreement dated as of March 30, 2017 entered into by Overstock.com, Inc., O.com Land, LLC, U.S. Bank National Association and Compass Bank (incorporated by reference to Exhibit 4.1 to our Current Report on Form 8-K filed on April 4, 2017 (File No. 000-49799)).

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(a)	Exhibits
4.4	Amended and Restated Revolving Note dated as of March 30, 2017 made by Overstock.com, Inc. to U.S. Bank National Association (incorporated by reference to Exhibit 4.2 to our Current Report on Form 8-K filed on April 4, 2017 (File No. 000-49799)).
4.5	Amended and Restated Revolving Note dated as of March 30, 2017 made by Overstock.com, Inc. to Compass Bank (incorporated by reference to Exhibit 4.3 to our Current Report on Form 8-K filed on April 4, 2017 (File No. 000-49799)).
4.6	Amendment to Deed of Trust, Assignment of Rents, Security Agreement and Financing Statement dated as of March 30, 2017 made by O.com Land, LLC to First American Title Insurance Company, as trustee, for the benefit of U.S. Bank National Association, as Administrative Bank for the Banks identified in the Loan Agreement described therein (incorporated by reference to Exhibit 4.4 to our Current Report on Form 8-K filed on April 4, 2017 (File No. 000-49799)).
10.1	First Amendment to Loan Agreement dated as of March 30, 2017 entered into by Overstock.com, Inc., O.com Land, LLC, U.S. Bank National Association and Compass Bank (incorporated by reference to Exhibit 4.1 to our Current Report on Form 8-K filed on April 4, 2017 (File No. 000-49799)).
10.2	Amended and Restated Revolving Note dated as of March 30, 2017 made by Overstock.com, Inc. to U.S. Bank National Association (incorporated by reference to Exhibit 4.2 to our Current Report on Form 8-K filed on April 4, 2017 (File No. 000-49799)).
10.3	Amended and Restated Revolving Note dated as of March 30, 2017 made by Overstock.com, Inc. to Compass Bank (incorporated by reference to Exhibit 4.3 to our Current Report on Form 8-K filed on April 4, 2017 (File No. 000-49799)).
10.4	Amendment to Deed of Trust, Assignment of Rents, Security Agreement and Financing Statement dated as of March 30, 2017 made by O.com Land, LLC to First American Title Insurance Company, as trustee, for the benefit of U.S. Bank National Association, as Administrative Bank for the Banks identified in the Loan Agreement described therein (incorporated by reference to Exhibit 4.4 to our Current Report on Form 8-K filed on April 4, 2017 (File No. 000-49799)).
10.5	Description of Overstock.com, Inc.'s oral agreement on January 27, 2017 to purchase 604,229 shares of its common stock from one or more subsidiaries of Fairfax Financial Holdings Limited at \$16.55 per share, for an aggregate purchase price of \$10 million (incorporated by reference to our Current Report on Form 8-K filed on January 30, 2017 (File No. 000-49799)).
10.6	O.com Land, LLC Term Note payable to the order of U.S. Bank National Association, dated January 1, 2017 (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on January 5, 2017 (File No. 000-49799)).
10.7	O.com Land, LLC Term Note payable to the order of Compass Bank, dated January 1, 2017 (incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed on January 5, 2017 (File No. 000-49799)).
*31.1	Exhibit 31.1 Certification of Chief Executive Officer
*31.2	Exhibit 31.2 Certification of Chief Financial Officer
*32.1	Exhibit 32.1 Section 1350 Certification of Chief Executive Officer
*32.2	Exhibit 32.2 Section 1350 Certification of Chief Financial Officer
101	Attached as Exhibit 101 to this report are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Comprehensive Income (Loss), (iv) Consolidated Statements of Cash Flows, (v) Consolidated Statements of Stockholders' Equity, and (vi) Notes to Consolidated Financial Statements.

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\* Filed herewith.

**SIGNATURE**

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

Date: May 4, 2017

**OVERSTOCK.COM, INC.**

/s/ ROBERT P. HUGHES

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Robert P. Hughes

Senior Vice President, Finance and Risk Management  
(Principal Financial Officer and Principal Accounting Officer)

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**AMENDED AND RESTATED  
BYLAWS  
OF  
OVERSTOCK.COM, INC.  
(a Delaware corporation)**

ARTICLE I  
CORPORATE OFFICES

*1.1 REGISTERED OFFICE*

The registered office of the corporation shall be fixed in the Certificate of Incorporation of the corporation.

*1.2 OTHER OFFICES*

The corporation may at any time establish additional offices at any place or places where the corporation is qualified to do business.

ARTICLE II  
MEETINGS OF STOCKHOLDERS

*2.1 PLACE OF MEETINGS*

Meetings of stockholders shall be held at any place within or outside the State of Delaware designated from time to time by the board of directors. In the absence of any such designation, stockholders' meetings shall be held at the registered office of the corporation.

*2.2 ANNUAL MEETING*

The annual meeting of stockholders shall be held each year on a date and at a time designated from time to time by the board of directors. At the meeting, directors shall be elected, and any other proper business may be transacted.

*2.3 SPECIAL MEETING*

A special meeting of the stockholders may be called at any time only by the board of directors, the chairman of the board, the chief executive officer, or the president, but may not be called by any other person or persons.

If a special meeting is called by any person or persons other than the board of directors, the request shall be in writing, specifying the time of such meeting and the general nature of the business proposed to be transacted, and shall be delivered personally or sent by registered mail or by telegraphic or other facsimile transmission to the chairman of the board, the president, chief executive officer, or the secretary of the corporation. No business may be transacted at such special meeting otherwise than specified in the notice of such special meeting delivered to stockholders (or any supplement thereto).

*2.4 NOTICE OF STOCKHOLDERS' MEETINGS*

All notices of meetings of stockholders shall be sent or otherwise given in accordance with Section 2.5 of these bylaws not less than ten (10) nor more than sixty (60) days before the date of the meeting. The notice shall specify the place, date, and hour of the meeting and (i) in the case of a special meeting, the purpose or purposes for which the meeting is called (no business other than that specified in the notice (or in any supplement thereto) may be transacted) or (ii) in the case of the annual meeting, those matters which the board of directors, at the time of giving the notice, intends to present for action by the stockholders. The notice of any meeting at which directors are to be elected shall include the name of any nominee or nominees who, at the time of the notice, the board intends to present for election.

## 2.5 *MANNER OF GIVING NOTICE; AFFIDAVIT OF NOTICE*

Written notice of any meeting of stockholders shall be given by first-class mail or by facsimile, telegraphic or other written communication or in such other manner as permitted by law. Notices shall be sent charges prepaid and shall be addressed to the stockholder at the address of that stockholder appearing on the books of the corporation or given by the stockholder to the corporation for the purpose of notice. Notice shall be deemed to have been given at the time when delivered personally or deposited in the mail or sent by telegram or other means of written communication.

If any notice addressed to a stockholder at the address of that stockholder appearing on the books of the corporation is returned to the corporation by the United States Postal Service marked to indicate that the United States Postal Service is unable to deliver the notice to the stockholder at that address, then all future notices or reports shall be deemed to have been duly given without further mailing if the same shall be available to the stockholder on written demand of the stockholder at the principal executive office of the corporation for a period of one (1) year from the date of the giving of the notice.

An affidavit of the mailing or other means of giving any notice (or supplement thereto) of any stockholders' meeting, executed by the secretary, assistant secretary or any transfer agent of the corporation giving the notice, shall be prima facie evidence of the giving of such notice (or supplement thereto).

## 2.6 *QUORUM*

The presence in person or by proxy of the holders of a majority of the shares entitled to vote thereat constitutes a quorum for the transaction of business at all meetings of stockholders. The stockholders present at a duly called or held meeting at which a quorum is present may continue to do business for which such meeting is called until adjournment, notwithstanding the withdrawal of enough stockholders to leave less than a quorum.

## 2.7 *ADJOURNED MEETING; NOTICE*

Any stockholders' meeting, annual or special, whether or not a quorum is present, may be adjourned from time to time by the vote of the majority of the shares represented at that meeting, either in person or by proxy. In the absence of a quorum, no other business may be transacted at that meeting except as has been transacted while a quorum was present, if any, as provided in Section 2.6 of these bylaws.

When any meeting of stockholders, either annual or special, is adjourned to another time or place, notice need not be given of the adjourned meeting if the time and place are announced at the meeting at which the adjournment is taken. However, if a new record date for the adjourned meeting is fixed or if the adjournment is for more than thirty (30) days from the date set for the original meeting, then notice of the adjourned meeting shall be given. Notice of any such adjourned meeting shall be given to each stockholder of record entitled to vote at the adjourned meeting in accordance with the provisions of Sections 2.4 and 2.5 of these bylaws. At any adjourned meeting the corporation may transact any business which might have been transacted at the original meeting.

## 2.8 *VOTING*

The stockholders entitled to vote at any meeting of stockholders shall be determined in accordance with the provisions of these bylaws, subject to the provisions of Sections 217 and 218 of the General Corporation Law of Delaware (relating to voting rights of fiduciaries, pledgors and joint owners, and to voting trusts and other voting agreements).

Except as may be otherwise provided in the Certificate of Incorporation, each outstanding share, regardless of class, shall be entitled to one vote on each matter submitted to a vote of the stockholders.

If a quorum is present, the election of directors shall be decided by a plurality of the votes of the shares present in person or represented by proxy at the meeting and entitled to vote on the election of directors. With respect to any matter other than the election of directors, if a quorum is present, the affirmative vote of the majority of the shares represented and voting at a duly held meeting (which shares voting affirmatively also constitute at least a majority of the required quorum) shall be the act of the stockholders, unless the vote of a greater number or a vote by classes is required by law, by the Certificate of Incorporation or by these bylaws. The board of directors, in its discretion, or the officer of the corporation presiding at a meeting of stockholders, in such officer's discretion, may require that any votes cast at such meeting shall be cast by written ballot.

Unless otherwise provided in the Amended and Restated Certificate of Incorporation (as amended and restated from time to time, the "Restated Certificate of Incorporation"), a stockholder shall not be entitled to cumulate votes at any meeting.

## 2.9 *STOCKHOLDER ACTION BY WRITTEN CONSENT WITHOUT A MEETING*

Stockholders of the corporation may not take action by written consent in lieu of a meeting.

#### **2.10 RECORD DATE FOR STOCKHOLDER NOTICE AND VOTING**

For purposes of determining the stockholders entitled to notice of any meeting or to vote thereat, the board of directors may fix, in advance, a record date, which shall not be more than sixty (60) days nor less than ten (10) days before the date of any such meeting, and in such event only stockholders of record on the date so fixed are entitled to notice and to vote, notwithstanding any transfer of any shares on the books of the corporation after the record date.

If the board of directors does not so fix a record date, the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the business day next preceding the day on which notice is given.

A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the board of directors may fix a new record date for the adjourned meeting. The record date for any purpose other than determining entitlement to notice of and to vote at a meeting of stockholders shall be as provided in Article VIII of these bylaws.

#### **2.11 PROXIES**

Every person entitled to vote for directors, or on any other matter, shall have the right to do so either in person or by one or more agents authorized by a written proxy signed by the person and filed with the secretary of the corporation, but no such proxy shall be voted or acted upon after three (3) years from its date, unless the proxy provides for a longer period. A proxy shall be deemed signed if the stockholder's name is placed on the proxy (whether by manual signature, typewriting, telegraphic transmission or otherwise) by the stockholder or the stockholder's attorney-in-fact. The provisions of Section 212(e) of the General Corporation Law of Delaware shall govern the revocability of a proxy that states on its face that it is irrevocable.

#### **2.12 INSPECTORS OF ELECTION**

The board of directors of the corporation may adopt by resolution such rules and regulations for the conduct of the meeting of the stockholders as it shall deem appropriate. Except to the extent inconsistent with such rules and regulations as adopted by the board of directors, the chairman of any meeting of the stockholders shall have the right and authority to prescribe such rules, regulations and procedures and to do all such acts as, in the judgment of such chairman, are appropriate for the proper conduct of the meeting. Such rules, regulations or procedures, whether adopted by the board of directors or prescribed by the chairman of the meeting, and such acts may include, without limitation, the following: (i) the establishment of an agenda or order of business for the meeting; (ii) the determination of when the polls shall open and close for any given matter to be voted on at the meeting; (iii) rules and procedures for maintaining order at the meeting and the safety of those present; (iv) limitations on attendance at or participation in the meeting to stockholders of record of the corporation, their duly authorized and constituted proxies or such other persons as the chairman of the meeting shall determine; (v) restrictions on entry to the meeting after the time fixed for the commencement thereof; (vi) limitations on the time allotted to questions or comments by participants; (vii) determination of the number of shares outstanding and the voting power of each, the number of shares represented at the meeting, the existence of a quorum, and the authenticity, validity, and effect of proxies; (viii) counting and tabulation of all votes or consents; (ix) hearing and determining all challenges and questions in any way arising in connection with the right to vote; (x) any other acts that may be proper to conduct the election or vote with fairness to all stockholders and (xi) the appointment of an inspector or inspectors of election to act at the meeting or its adjournment in respect of one or more of the foregoing matters. The board of directors or chairman may hear and determine all challenges and questions in any way arising in connection with the right to vote.

#### **2.13 NOTICE OF STOCKHOLDER BUSINESS TO BE BROUGHT BEFORE A MEETING.**

(a) **Business Properly Brought Before a Meeting.** At an annual meeting of the stockholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual meeting, business must be (i) brought before the meeting by the corporation and specified in the notice of meeting given by or at the direction of the Board of Directors, (ii) brought before the meeting by or at the direction of the Board of Directors, or (iii) otherwise properly brought before the meeting by a stockholder who (A) was a stockholder of record (and, with respect to any beneficial owner, if different, on whose behalf such business is proposed, only if such beneficial owner was the beneficial owner of shares of the corporation) both at the time of giving the notice provided for in this Section 2.13 and at the time of the meeting, (B) is entitled to vote at the meeting, and (C) has complied with this Section 2.13 as to such business. Except for proposals properly made in accordance with Rule 14a-8 under the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder (as so amended and inclusive of such rules and regulations, the "Exchange Act"), and included in the notice of meeting given by or at the direction of the Board of Directors, the foregoing clause (iii) shall be the exclusive



means for a stockholder to propose business to be brought before an annual meeting of the stockholders. Stockholders shall not be permitted to propose business to be brought before a special meeting of the stockholders, and the only matters that may be brought before a special meeting are the matters specified in the notice of meeting given by or at the direction of the person calling the meeting pursuant to Section 2.3 of these Bylaws. Stockholders seeking to nominate persons for election to the Board must comply with Section 2.14 of these Bylaws, and this Section 2.13 shall not be applicable to nominations except as expressly provided in Section 2.14 of these Bylaws.

(b) Requirement of Timely Notice of Stockholder Business. Without qualification, for business to be properly brought before an annual meeting by a stockholder, the stockholder must (i) provide Timely Notice (as defined below) thereof in writing and in proper form to the Secretary of the corporation and (ii) provide any updates or supplements to such notice at the times and in the forms required by this Section 2.13. To be timely, a stockholder's notice must be delivered to, or mailed and received at, the principal executive offices of the corporation not less than ninety (90) days nor more than one hundred twenty (120) days prior to the one year anniversary of the preceding year's annual meeting; provided, however, that if the date of the annual meeting is more than thirty (30) days before or more than sixty (60) days after such anniversary date, notice by the stockholder to be timely must be so delivered, or mailed and received, not earlier than the one hundred twentieth (120th) day prior to such annual meeting and not later than the ninetieth (90th) day prior to such annual meeting or, if later, the tenth (10th) day following the day on which public disclosure of the date of such annual meeting was first made (such notice within such time periods, "Timely Notice"). In no event shall any adjournment or postponement of an annual meeting or the announcement thereof commence a new time period for the giving of Timely Notice as described above.

(c) Requirements for Proper Form of Stockholder Notice of Proposed Business. To be in proper form for purposes of this Section 2.13, a stockholder's notice to the Secretary shall set forth:

(i) Stockholder Information. As to each Proposing Person (as defined below), (A) the name and address of such Proposing Person (including, if applicable, the name and address that appear on the corporation's books and records) and (B) the class or series and number of shares of the corporation that are, directly or indirectly, owned of record or beneficially owned (within the meaning of Rule 13d-3 under the Exchange Act) by such Proposing Person, except that such Proposing Person shall in all events be deemed to beneficially own any shares of any class or series of the corporation as to which such Proposing Person has a right to acquire beneficial ownership at any time in the future (the disclosures to be made pursuant to the foregoing clauses (A) and (B) are referred to as "Stockholder Information");

(ii) Information Regarding Disclosable Interests. As to each Proposing Person, (A) any derivative, swap or other transaction or series of transactions engaged in, directly or indirectly, by such Proposing Person, the purpose or effect of which is to give such Proposing Person economic risk similar to ownership of shares of any class or series of the corporation, including due to the fact that the value of such derivative, swap or other transactions is determined by reference to the price, value or volatility of any shares of any class or series of the corporation, or which derivative, swap or other transactions provide, directly or indirectly, the opportunity to profit from any increase in the price or value of shares of any class or series of the corporation ("Synthetic Equity Interests"), which Synthetic Equity Interests shall be disclosed without regard to whether (x) such derivative, swap or other transactions convey any voting rights in such shares to such Proposing Person, (y) the derivative, swap or other transactions are required to be, or are capable of being, settled through delivery of such shares or (z) such Proposing Person may have entered into other transactions that hedge or mitigate the economic effect of such derivative, swap or other transactions, (B) any proxy (other than a revocable proxy or consent given in response to a solicitation made pursuant to, and in accordance with, Section 14(a) of the Exchange Act by way of a solicitation statement filed on Schedule 14A), agreement, arrangement, understanding or relationship pursuant to which such Proposing Person has or shares a right to vote any shares of any class or series of the corporation, (C) any agreement, arrangement, understanding or relationship, including any repurchase or similar so-called "stock borrowing" agreement or arrangement, engaged in, directly or indirectly, by such Proposing Person, the purpose or effect of which is to mitigate loss to, reduce the economic risk (of ownership or otherwise) of shares of any class or series of the corporation by, manage the risk of share price changes for, or increase or decrease the voting power of, such Proposing Person with respect to the shares of any class or series of the corporation, or which provides, directly or indirectly, the opportunity to profit from any decrease in the price or value of the shares of any class or series of the corporation ("Short Interests"), (D) any pending or threatened litigation in which such Proposing Person is a party or material participant or has an economic interest, (E) any performance related fees (other than an asset based fee) that such Proposing Person is entitled to based on any increase or decrease in the price or value of shares of any class or series of the corporation, or any Synthetic Equity Interests or Short Interests, if any, and (F) any other information relating to such Proposing Person that would be required to be disclosed in a proxy statement or other filing required to be made in connection with solicitations of proxies or consents by such Proposing Person in support of the business proposed to be brought before the meeting pursuant to Section 14(a) of the Exchange Act (the disclosures to be made pursuant to the foregoing clauses (A) through (F) are referred to as "Disclosable Interests"); provided, however, that Disclosable Interests shall not include any such disclosures with respect to the ordinary course business activities of any broker, dealer, commercial bank, trust company or other nominee who is a Proposing Person solely as a result of being the stockholder of record directed to prepare and submit the notice required by these Bylaws on behalf of a beneficial owner; and

(iii) Description of Proposed Business. As to each item of business the stockholder proposes to bring before the annual meeting, (A) a reasonably brief description of the business desired to be brought before the annual meeting,

the reasons for conducting such business at the annual meeting and any material interest in such business of each Proposing Person, (B) the text of the proposal or business (including the text of any resolutions proposed for consideration), and (C) a reasonably detailed description of all agreements, arrangements and understandings (x) between or among any of the Proposing Persons or (y) between or among any Proposing Person and any other person or entity (including their names) in connection with the proposal of such business by such stockholder.

(iv) Definition of Proposing Person. For purposes of this Section 2.13, the term “Proposing Person” shall mean (i) the stockholder providing the notice of business proposed to be brought before an annual meeting, (ii) the beneficial owner or beneficial owners, if different, on whose behalf the notice of the business proposed to be brought before the annual meeting is made, and (iii) any affiliate or associate (each within the meaning of Rule 12b-2 under the Exchange Act for purposes of these Bylaws) of such stockholder or beneficial owner.

(d) Update and Supplement of Stockholder Notice of Proposed Business. A stockholder providing notice of business proposed to be brought before an annual meeting shall further update and supplement such notice, if necessary, so that the information provided or required to be provided in such notice pursuant to this Section 2.13 shall be true and correct as of the record date for the meeting and as of the date that is ten (10) business days prior to the meeting or any adjournment or postponement thereof, and such update and supplement shall be delivered to, or mailed and received by, the Secretary at the principal executive offices of the corporation not later than five (5) business days after the record date for the meeting (in the case of the update and supplement required to be made as of the record date), and not later than eight (8) business days prior to the date for the meeting or any adjournment or postponement thereof, if practicable (or, if not practicable, on the first practicable date prior to the date for the meeting or such adjournment or postponement thereof) (in the case of the update and supplement required to be made as of ten (10) business days prior to the meeting or any adjournment or postponement thereof, as applicable).

(e) Business Not Properly Brought Before A Meeting. Notwithstanding anything in these Bylaws to the contrary, no business shall be conducted at an annual meeting except in accordance with this Section 2.13. The presiding officer of the meeting shall, if the facts warrant, determine that the business was not properly brought before the meeting in accordance with this Section 2.13, and if he or she should so determine, he or she shall so declare to the meeting and any such business shall not be transacted.

(f) Rule 14a-8; Exchange Act Compliance. This Section 2.13 is expressly intended to apply to any business proposed to be brought before an annual meeting of stockholders other than any proposal made pursuant to Rule 14a-8 under the Exchange Act. In addition to the requirements of this Section 2.13 with respect to any business proposed to be brought before an annual meeting, each Proposing Person shall comply with all applicable requirements of the Exchange Act with respect to any such business. Nothing in this Section 2.13 shall be deemed to affect the rights of stockholders to request inclusion of proposals in the corporation’s proxy statement pursuant to Rule 14a-8 under the Exchange Act.

(g) Definition of Public Disclosure. For purposes of these Bylaws, “public disclosure” shall mean disclosure in a press release reported by a national news service or in a document publicly filed by the corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Exchange Act.

#### 2.14 NOMINATIONS.

(a) Who May Make Nominations. Nominations of any person for election to the Board of Directors at an annual meeting or at a special meeting (but only if the election of directors is a matter specified in the notice of meeting given by or at the direction of the person calling such special meeting) may be made at such meeting only (i) by or at the direction of the Board of Directors, including by any committee or persons appointed by the Board of Directors, or (ii) by a stockholder who (A) was a stockholder of record (and, with respect to any beneficial owner, if different, on whose behalf such nomination is proposed to be made, only if such beneficial owner was the beneficial owner of shares of the corporation) both at the time of giving the notice provided for in this Section 2.14 and at the time of the meeting, (B) is entitled to vote at the meeting, and (C) has complied with this Section 2.14 as to such nomination. The foregoing clause (ii) shall be the exclusive means for a stockholder to make any nomination of a person or persons for election to the Board of Directors at an annual meeting or special meeting.

(b) Requirement of Timely Notice of Stockholder Nominations. Without qualification, for a stockholder to make any nomination of a person or persons for election to the Board of Directors at an annual meeting, the stockholder must (i) provide Timely Notice (as defined in Section 2.13 of these Bylaws) thereof in writing and in proper form to the Secretary of the corporation and (ii) provide any updates or supplements to such notice at the times and in the forms required by this Section 2.14. Without qualification, if the election of directors is a matter specified in the notice of meeting given by or at the direction of the person calling such special meeting, then for a stockholder to make any nomination of a person or persons for election to the Board of Directors at a special meeting, the stockholder must (i) provide timely notice thereof in writing and in proper form to the Secretary of the corporation at the principal executive offices of the corporation, and (ii) provide any updates or supplements to such notice at the times and in the forms required by this Section 2.14. To be timely, a stockholder’s notice for nominations to be made at a special meeting must be delivered to, or mailed and received at, the principal executive offices of the corporation not earlier than the one hundred twentieth (120th) day prior to such special meeting and not later than the ninetieth (90th) day prior to such special meeting or, if later, the tenth (10th) day following the day on which public disclosure

(as defined in Section 2.13 of these Bylaws) of the date of such special meeting was first made. In no event shall any adjournment or postponement of an annual meeting or special meeting or the announcement thereof commence a new time period for the giving of a stockholder's notice as described above.

(c) Requirements for Proper Form of Notice of Stockholder Nominations. To be in proper form for purposes of this Section 2.14, a stockholder's notice to the Secretary shall set forth:

(i) Stockholder Information. As to each Nominating Person (as defined below), the Stockholder Information (as defined in Section 2.13(c)(i)), except that for purposes of this Section 2.14, the term "Nominating Person" shall be substituted for the term "Proposing Person" in all places it appears in Section 2.13(c)(i);

(ii) Information Regarding Disclosable Interests. As to each Nominating Person, any Disclosable Interests (as defined in Section 2.13(c)(ii)), except that for purposes of this Section 2.14 the term "Nominating Person" shall be substituted for the term "Proposing Person" in all places it appears in Section 2.13(c)(ii), and the disclosure in clause (F) of Section 2.13(c)(ii) shall be made with respect to the election of directors at the meeting;

(iii) Information Regarding Proposed Nominees. As to each person whom a Nominating Person proposes to nominate for election as a director, (A) all information with respect to such proposed nominee that would be required to be set forth in a stockholder's notice pursuant to this Section 2.14 if such proposed nominee were a Nominating Person, (B) all information relating to such proposed nominee that is required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors in a contested election pursuant to Section 14(a) under the Exchange Act (including such proposed nominee's written consent to being named in the proxy statement as a nominee and to serving as a director if elected), and (C) a description of all direct and indirect compensation and other material monetary agreements, arrangements and understandings during the past three years, and any other material relationships, between or among any Nominating Person, on the one hand, and each proposed nominee, his or her respective affiliates and associates, on the other hand, including, without limitation, all information that would be required to be disclosed pursuant to Item 404 under Regulation S-K if such Nominating Person were the "registrant" for purposes of such rule and the proposed nominee were a director or executive officer of such registrant; and

(iv) Other Information to be Furnished by Proposed Nominees. The corporation may require any proposed nominee to furnish such other information (A) as may reasonably be required by the corporation to determine the eligibility of such proposed nominee to serve as an independent director of the corporation in accordance with applicable requirements or (B) that could be material to a reasonable stockholder's understanding of the independence or lack of independence of such proposed nominee.

(v) Definition of Nominating Person. For purposes of this Section 2.14, the term "Nominating Person" shall mean (i) the stockholder providing the notice of the nomination proposed to be made at the meeting, (ii) the beneficial owner or beneficial owners, if different, on whose behalf the notice of the nomination proposed to be made at the meeting is made, and (iii) any affiliate or associate of such stockholder or beneficial owner.

(d) Update and Supplement of Stockholder Notice of Nominations. A stockholder providing notice of any nomination proposed to be made at a meeting shall further update and supplement such notice, if necessary, so that the information provided or required to be provided in such notice pursuant to this Section 2.14 shall be true and correct as of the record date for the meeting and as of the date that is ten (10) business days prior to the meeting or any adjournment or postponement thereof, and such update and supplement shall be delivered to, or mailed and received by, the Secretary at the principal executive offices of the corporation not later than five (5) business days after the record date for the meeting (in the case of the update and supplement required to be made as of the record date), and not later than eight (8) business days prior to the date for the meeting, if practicable (or, if not practicable, on the first practicable date prior to the date for the meeting or such adjournment or postponement thereof) (in the case of the update and supplement required to be made as of ten (10) business days prior to the meeting or any adjournment or postponement thereof, as applicable).

(e) Defective Nominations. Notwithstanding anything in these Bylaws to the contrary, no person shall be eligible for election as a director of the corporation unless nominated in accordance with this Section 2.14. The presiding officer at the meeting shall, if the facts warrant, determine that a nomination was not properly made in accordance with this Section 2.14, and if he or she should so determine, he or she shall so declare such determination to the meeting and the nomination shall be disregarded.

(f) Compliance with Exchange Act. In addition to the requirements of this Section 2.15 with respect to any nomination proposed to be made at a meeting, each Nominating Person shall comply with all applicable requirements of the Exchange Act with respect to any such nominations.

## ARTICLE III

### DIRECTORS

#### 3.1 POWERS

Subject to the provisions of the General Corporation Law of Delaware and to any limitations in the Restated Certificate of Incorporation or these bylaws relating to action required to be approved by the stockholders or by the outstanding shares, the business and affairs of the corporation shall be managed and all corporate powers shall be exercised by or under the direction of the board of directors.

### 3.2 NUMBER AND TERM OF OFFICE

The authorized number of directors shall be established from time to time by resolution of the board of directors.

No reduction of the authorized number of directors shall have the effect of removing any director before that director's term of office expires.

### 3.3 RESIGNATION AND VACANCIES

Any director may resign effective on giving notice in writing or by electronic transmission to the chairman of the board, the president, the secretary or the board of directors, unless the notice specifies a later time for that resignation to become effective. If the resignation of a director is effective at a future time, the board of directors (including such director whose resignation is to be effective at a later time) may elect a successor to take office when the resignation becomes effective.

Unless otherwise required by law or the Restated Certificate of Incorporation, vacancies arising through death, resignation, removal, an increase in the number of directors or otherwise may be filled only by a majority of the directors then in office, though less than a quorum, or by a sole remaining director. Any director elected in accordance with the preceding sentence shall hold office for the remainder of the full term of the class of directors in which the new directorship was created or the vacancy occurred and until such director's successor shall have been elected and qualified, or until such director's earlier death, resignation or removal. No decrease in the number of directors constituting the board of directors shall shorten the term of any incumbent director.

### 3.4 REMOVAL

Any director may be removed from office at any time only with cause by the affirmative vote of the holders of at least a majority of the then outstanding shares of the capital stock of the corporation entitled to vote at an election of directors.

### 3.5 PLACE OF MEETINGS; MEETINGS BY TELEPHONE

Regular meetings of the board of directors may be held at any place within or outside the State of Delaware that has been designated from time to time by resolution of the board. In the absence of such a designation, regular meetings shall be held at the principal executive office of the corporation. Special meetings of the board may be held at any place within or outside the State of Delaware that has been designated in the notice of the meeting or, if not stated in the notice or if there is no notice, at the principal executive office of the corporation.

Any meeting, regular or special, may be held by conference telephone or other communication equipment, so long as all directors participating in the meeting can hear one another; and all such directors shall be deemed to be present in person at the meeting.

### 3.6 REGULAR MEETINGS

Regular meetings of the board of directors may be held without notice if the board of directors fixes the times of such meetings.

### 3.7 SPECIAL MEETINGS; NOTICE

The chairman of the board, the president, or any two directors may call special meetings of the board of directors for any purpose or purposes at any time.

Notice of the time and place of special meetings shall be delivered personally or by telephone to each director or sent by first-class mail, facsimile, electronic transmission or telegram, charges prepaid, addressed to each director at that director's address or, in the case of notice delivered by electronic mail, the director's electronic mail address as it is shown on the records of the corporation. If the notice is mailed, it shall be deposited in the United States mail at least four (4) days before the time of the holding of the meeting. If the notice is delivered personally or by notice, facsimile or electronic transmission, it shall be delivered personally or by telephone, facsimile machine or appropriate means of electronic communication at least forty-eight (48) hours before the time of the holding of the meeting or on such shorter notice as the person or persons calling such meeting may deem necessary or appropriate in the circumstances. Any oral notice given personally or by telephone may be communicated either to the director or to a person at the office of the director who the person giving the notice has reason to

believe will promptly communicate it to the director. An affidavit of the secretary or an assistant secretary of the corporation that the notice has been given by a form of electronic transmission shall, in the absence of fraud, be prima facie evidence of the facts stated therein.

### 3.8 *QUORUM*

Except as otherwise required by law, a majority of the authorized number of directors shall constitute a quorum for the transaction of business, except to adjourn as provided in Section 3.11 of these bylaws. Every act or decision done or made by a majority of the directors present at a duly held meeting at which a quorum is present shall be regarded as the act of the board of directors, subject to the provisions of the Certificate of Incorporation and applicable law.

A meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of directors, if any action taken is approved by at least a majority of the required quorum for that meeting.

### 3.9 *WAIVER OF NOTICE*

Notice of a meeting need not be given to any director (a) who signs a waiver of notice or a consent to holding the meeting or an approval of the minutes thereof, whether before or after the meeting, or (b) who attends the meeting without protesting, prior thereto or at its commencement, the lack of notice to such directors. All such waivers, consents, and approvals shall be filed with the corporate records or made part of the minutes of the meeting. A waiver of notice need not specify the purpose of any regular or special meeting of the board of directors.

### 3.10 *ADJOURNMENT*

A majority of the directors present, whether or not constituting a quorum, may adjourn any meeting to another time and place.

### 3.11 *NOTICE OF ADJOURNMENT*

Notice of the time and place of holding an adjourned meeting need not be given unless the meeting is adjourned for more than twenty-four (24) hours. If the meeting is adjourned for more than twenty-four (24) hours, then notice of the time and place of the adjourned meeting shall be given before the adjourned meeting takes place, in the manner specified in Section 3.7 of these bylaws, to the directors who were not present at the time of the adjournment.

### 3.12 *BOARD ACTION BY WRITTEN CONSENT WITHOUT A MEETING*

Any action required or permitted to be taken by the board of directors may be taken without a meeting, provided that all the members of the board individually or collectively consent in writing or by electronic transmission to that action. Such action by written consent shall have the same force and effect as a unanimous vote of the board of directors. Such written consent and any counterparts thereof or electronic transmission or transmissions shall be filed with the minutes of the proceedings of the board. Such filing shall be in paper form if the minutes are maintained in paper form and shall be in electronic form if the minutes are maintained in electronic form. Any copy, facsimile or other reliable reproduction of a consent in writing may be substituted or used in lieu of the original writing for any and all purposes for which the original writing could be used, provided that such copy, facsimile or other reproduction shall be a complete reproduction of the entire original writing.

### 3.13 *FEES AND COMPENSATION OF DIRECTORS*

Directors and members of committees may receive such compensation, if any, for their services and such reimbursement of expenses as may be fixed or determined by resolution of the board of directors. This Section 3.13 shall not be construed to preclude any director from serving the corporation in any other capacity as an officer, agent, employee or otherwise and receiving compensation for those services.

### 3.14 *APPROVAL OF LOANS TO EMPLOYEES*

To the extent permitted by law, the corporation may lend money to, or guarantee any obligation of, or otherwise assist any employee of the corporation or of its subsidiaries, including any employee who is a director of the corporation or one of its subsidiaries, whenever, in the judgment of the directors, such loan, guaranty or assistance may reasonably be expected to benefit the corporation. The loan, guaranty or other assistance may be with or without interest and may be unsecured, or secured in such manner as the board of directors shall approve, including, without limitation, a pledge of shares of stock of the corporation. Nothing contained in this section shall be deemed to deny, limit or restrict the powers of guaranty or warranty of the corporation at common law or under any statute.

### 3.15 *INTERESTED DIRECTORS*

No contract or transaction between the corporation and one or more of its directors or officers, or between the corporation and any other corporation, partnership, association, or other organization in which one or more of its directors or

officers are directors or officers or have a financial interest, shall be void or voidable solely for this reason, or solely because the director or officer is present at or participates in the meeting of the board of directors or committee thereof which authorizes the contract or transaction, or solely because the director or officer's vote is counted for such purpose if (a) the material facts as to the director or officer's relationship or interest and as to the contract or transaction are disclosed or are known to the board of directors or the committee, and the board of directors or committee in good faith authorizes the contract or transaction by the affirmative votes of a majority of the disinterested directors, even though the disinterested directors be less than a quorum; or (b) the material facts as to the director or officer's relationship or interest and as to the contract or transaction are disclosed or are known to the stockholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by vote of the stockholders; or (iii) the contract or transaction is fair as to the corporation as of the time it is authorized, approved or ratified by the board of directors, a committee thereof or the stockholders. Common or interested directors may be counted in determining the presence of a quorum at a meeting of the board of directors or of a committee which authorizes the contract or transaction.

## ARTICLE IV COMMITTEES

### *4.1 COMMITTEES OF DIRECTORS*

The board of directors may designate one (1) or more committees, each consisting of one (1) or more directors, to serve at the pleasure of the board. The board may designate one (1) or more directors as alternate members of any committee, who may replace any absent member at any meeting of the committee. In the absence or disqualification of a member of a committee, and in the absence of a designation by the board of directors of an alternate member to replace the absent or disqualified member, the member or members thereof present at any meeting and not disqualified from voting, whether or not such member or members constitute a quorum, may unanimously appoint another member of the board of directors to act at the meeting in the place of any absent or disqualified member. Any committee, to the extent permitted by law and provided in the resolution establishing such committee, shall have and may exercise all the powers and authority of the board of directors in the management of the business and affairs of the corporation, and may authorize the seal of the corporation to be affixed to all papers which may require it; provided, however, that no such committee shall have the power or authority to (i) amend the Restated Certificate of Incorporation (except that a committee may, to the extent authorized in the resolution or resolutions providing for the issuance of shares of stock adopted by the board of directors as provided in Section 151(a) of the General Corporation Law of Delaware, fix any of the preferences or rights of such shares relating to dividends, redemption, dissolution, any distribution of assets of the corporation or the conversion into, or the exchange of such shares for, shares of any other class or classes or any other series of the same or any other class or classes of stock of the corporation), (ii) adopt an agreement of merger or consolidation under Sections 251 or 252 of the General Corporation Law of Delaware, (iii) recommend to the stockholders the sale, lease or exchange of all or substantially all of the corporation's property and assets, (iv) recommend to the stockholders a dissolution of the corporation or a revocation of a dissolution, or (v) amend the bylaws of the corporation; and, unless the board resolution establishing the committee, the bylaws or the Restated Certificate of Incorporation expressly so provide, no such committee shall have the power or authority to declare a dividend, to authorize the issuance of stock, or to adopt a certificate of ownership and merger pursuant to Section 253 of the General Corporation Law of Delaware. Each committee shall keep regular minutes and report to the board of directors when required.

### *4.2 MEETINGS AND ACTION OF COMMITTEES*

Meetings and actions of committees shall be governed by, and held and taken in accordance with, the provisions of Article III of these bylaws, Section 3.5 (place of meetings), Section 3.6 (regular meetings), Section 3.7 (special meetings and notice), Section 3.8 (quorum), Section 3.9 (waiver of notice), Section 3.10 (adjournment), Section 3.11 (notice of adjournment), and Section 3.12 (action without meeting), with such changes in the context of those bylaws as are necessary to substitute the committee and its members for the board of directors and its members; provided, however, that the time of regular meetings of committees may be determined either by resolution of the board of directors or by resolution of the committee, that special meetings of committees may also be called by resolution of the board of directors, and that notice of special meetings of committees shall also be given to all alternate members, who shall have the right to attend all meetings of the committee. The board of directors may adopt rules for the government of any committee not inconsistent with the provisions of these bylaws.

## ARTICLE V OFFICERS

### *5.1 OFFICERS*

The officers of the corporation shall be a president, a secretary, and a chief financial officer. The corporation may also have, at the discretion of the board of directors, a chairman of the board, a chief executive officer, a treasurer, one or more vice presidents, one or more assistant secretaries, one or more assistant treasurers, and such other officers as may be appointed in accordance with the provisions of Section 5.3 of these bylaws. The same person may hold any number of offices.

### **5.2 ELECTION OF OFFICERS**

The officers of the corporation, except such officers as may be appointed in accordance with the provisions of Section 5.3 or Section 5.5 of these bylaws, shall be chosen by the board of directors, subject to the rights, if any, of an officer under any contract of employment.

### **5.3 SUBORDINATE OFFICERS**

The board of directors may appoint, or may empower the chief executive officer or president to appoint, such other officers as the business of the corporation may require, each of whom shall hold office for such period, have such authority, and perform such duties as are provided in these bylaws or as the board of directors may from time to time determine.

### **5.4 REMOVAL AND RESIGNATION OF OFFICERS**

Subject to the rights, if any, of an officer under any contract of employment, any officer may be removed, either with or without cause, by the board of directors at any regular or special meeting of the board or, except in case of an officer chosen by the board of directors, by any officer upon whom such power of removal may be conferred by the board of directors.

Any officer may resign at any time by giving written notice to the corporation. Any resignation shall take effect at the date of the receipt of that notice or at any later time specified in that notice; and, unless otherwise specified in that notice, the acceptance of the resignation shall not be necessary to make it effective. Any resignation is without prejudice to the rights, if any, of the corporation under any contract to which the officer is a party.

### **5.5 VACANCIES IN OFFICES**

A vacancy in any office because of death, resignation, removal, disqualification or any other cause shall be filled in the manner prescribed in these bylaws for regular appointments to that office.

### **5.6 CHAIRMAN OF THE BOARD**

The chairman of the board, if such an officer be elected, shall, if present, preside at meetings of the board of directors and exercise and perform such other powers and duties as may from time to time be assigned to him by the board of directors or as may be prescribed by these bylaws. If there is no chief executive officer, then the chairman of the board shall also be the chief executive officer of the corporation and shall have the powers and duties prescribed in Section 5.7 of these bylaws.

### **5.7 CHIEF EXECUTIVE OFFICER**

Subject to such supervisory powers, if any, as may be given by the board of directors to the chairman of the board, if there be such an officer, the chief executive officer shall be subject to the control of the board of directors and have general supervision, direction and control of the business. He or she shall preside at all meetings of the stockholders and, in the absence or non-existence of the chairman of the board, at all meetings of the board of directors. He or she shall have the general powers and duties of management usually vested in the office of the chief executive officer of a corporation, and shall have such other powers and perform such other duties as from time to time may be prescribed by the board of directors or these bylaws.

### **5.8 PRESIDENT**

In the absence or disability of the chief executive officer, and if there is no chairman of the board, the president shall perform all the duties of the chief executive officer and when so acting shall have the power of, and be subject to all the restrictions upon, the chief executive officer. The president shall have such other powers and perform such other duties as from time to time may be prescribed for the president by the board of directors, these bylaws, the chief executive officer or the chairman of the board.

### **5.9 VICE PRESIDENTS**

In the absence or disability of the president, the vice presidents, if any, in order of their rank as fixed by the board of directors or, if not ranked, a vice president designated by the board of directors, shall perform all the duties of the president and when so acting shall have all the powers of, and be subject to all the restrictions upon, the president. The vice presidents shall have such other powers and perform such other duties as from time to time may be prescribed for them respectively by the board of directors, these bylaws, the president or the chairman of the board.

#### 5.10 SECRETARY

The secretary shall keep or cause to be kept, at the principal executive office of the corporation or such other place as the board of directors may direct, a book of minutes of all meetings and actions of directors, committees of directors and stockholders. The minutes shall show the time and place of each meeting, whether regular or special (and, if special, how authorized and the notice given), the names of those present at directors' meetings or committee meetings, the number of shares present or represented at stockholders' meetings, and the proceedings thereof.

The secretary shall keep, or cause to be kept, at the principal executive office of the corporation or at the office of the corporation's transfer agent or registrar, as determined by resolution of the board of directors, a share register, or a duplicate share register, showing the names of all stockholders and their addresses, the number and classes of shares held by each, the number and date of certificates evidencing such shares, and the number and date of cancellation of every certificate surrendered for cancellation.

The secretary shall give, or cause to be given, notice of all meetings of the stockholders and of the board of directors required to be given by law or by these bylaws. He shall keep the seal of the corporation, if one be adopted, in safe custody and shall have such other powers and perform such other duties as may be prescribed by the board of directors or by these bylaws.

#### 5.11 CHIEF FINANCIAL OFFICER

The chief financial officer shall keep and maintain, or cause to be kept and maintained, adequate and correct books and records of accounts of the properties and business transactions of the corporation, including accounts of its assets, liabilities, receipts, disbursements, gains, losses, capital, retained earnings, and shares. The books of account shall at all reasonable times be open to inspection by any director.

The chief financial officer shall deposit all money and other valuables in the name and to the credit of the corporation with such depositories as may be designated in accordance with procedures established by the board of directors. He shall disburse the funds of the corporation as may be ordered by the board of directors, shall render to the president and directors, whenever they request it, an account of all of his transactions as chief financial officer and of the financial condition of the corporation, and shall have such other powers and perform such other duties as may be prescribed by the board of directors or these bylaws.

### ARTICLE VI

#### INDEMNIFICATION OF DIRECTORS,

#### OFFICERS, EMPLOYEES, AND OTHER AGENTS

#### 6.1 POWER TO INDEMNIFY IN ACTIONS, SUITS OR PROCEEDINGS OTHER THAN THOSE BY OR IN THE RIGHT OF THE CORPORATION

Subject to Section 6.3 of this Article VI, the corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation) by reason of the fact that such person is or was a director or officer of the corporation, or is or was a director or officer of the corporation serving at the request of the corporation as a director or officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit or proceeding if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe such person's conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which such person reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that such person's conduct was unlawful.

#### 6.2 POWER TO INDEMNIFY IN ACTIONS, SUITS OR PROCEEDINGS BY OR IN THE RIGHT OF THE CORPORATION

Subject to Section 6.3 of this Article VI, the corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that such person is or was a director or officer of the corporation, or is or was a director or officer of the corporation serving at the request of the corporation as a director, officer, employee or agent of



another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection with the defense or settlement of such action or suit if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the corporation; except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the corporation unless and only to the extent that the Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper.

### **6.3 AUTHORIZATION OF INDEMNIFICATION**

Any indemnification under this Article VI (unless ordered by a court) shall be made by the corporation only as authorized in the specific case upon a determination that indemnification of the director or officer is proper in the circumstances because such person has met the applicable standard of conduct set forth in Section 6.1 or Section 6.2 of this Article VI, as the case may be. Such determination shall be made, with respect to a person who is a director or officer at the time of such determination, (a) by a majority vote of the directors who are not parties to such action, suit or proceeding, even though less than a quorum, or (b) by a committee of such directors designated by a majority vote of such directors, even though less than a quorum, or (c) if there are no such directors, or if such directors so direct, by independent legal counsel in a written opinion or (d) by the stockholders (but only if a majority of the directors who are not parties to such action, suit or proceeding, if they constitute a quorum of the board of directors, presents the issue of entitlement to indemnification to the stockholders for their determination). Any person or persons having the authority to act on the matter on behalf of the corporation shall make such determination, with respect to former directors and officers. To the extent, however, that a present or former director or officer of the corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding described above, or in defense of any claim, issue or matter therein, such person shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection therewith, without the necessity of authorization in the specific case.

### **6.4 GOOD FAITH DEFINED**

For purposes of any determination under Section 6.3 of this Article VI, a person shall be deemed to have acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the corporation, or, with respect to any criminal action or proceeding, to have had no reasonable cause to believe such person's conduct was unlawful, if such person's action is based on the records or books of account of the corporation or another enterprise, or on information supplied to such person by the officers of the corporation or another enterprise in the course of their duties, or on the advice of legal counsel for the corporation or another enterprise or on information or records given or reports made to the corporation or another enterprise by an independent certified public accountant or by an appraiser or other expert selected with reasonable care by the corporation or another enterprise. The term "another enterprise" as used in this Section 6.4 shall mean any other corporation or any partnership, joint venture, trust, employee benefit plan or other enterprise of which such person is or was serving at the request of the corporation as a director, officer, employee or agent. The provisions of this Section 6.4 shall not be deemed to be exclusive or to limit in any way the circumstances in which a person may be deemed to have met the applicable standard of conduct set forth in Section 6.1 or 6.2 of this Article VI, as the case may be.

### **6.5 INDEMNIFICATION BY A COURT**

Notwithstanding any contrary determination in the specific case under Section 6.3 of this Article VI, and notwithstanding the absence of any determination thereunder, any director or officer may apply to the Court of Chancery in the State of Delaware for indemnification to the extent otherwise permissible under Sections 6.1 and 6.2 of this Article VI. The basis of such indemnification by a court shall be a determination by such court that indemnification of the director or officer is proper in the circumstances because such person has met the applicable standards of conduct set forth in Section 6.1 or 6.2 of this Article VI, as the case may be. Neither a contrary determination in the specific case under Section 6.3 of this Article VI nor the absence of any determination thereunder shall be a defense to such application or create a presumption that the director or officer seeking indemnification has not met any applicable standard of conduct. Notice of any application for indemnification pursuant to this Section 6.5 shall be given to the corporation promptly upon the filing of such application. If successful, in whole or in part, the director or officer seeking indemnification shall also be entitled to be paid the expense of prosecuting such application.

### **6.6 EXPENSES PAYABLE IN ADVANCE**

Expenses incurred by a director or officer in defending any civil, criminal, administrative or investigative action, suit or proceeding shall be paid by the corporation in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of such director or officer to repay such amount if it shall ultimately be determined that such person is not entitled to be indemnified by the corporation as authorized in this Article VI.

#### *6.7 NONEXCLUSIVITY OF INDEMNIFICATION AND ADVANCEMENT OF EXPENSES*

The indemnification and advancement of expenses provided by or granted pursuant to this Article VI shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under the Restated Certificate of Incorporation, any Bylaw, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in such person's official capacity and as to action in another capacity while holding such office, it being the policy of the corporation that indemnification of the persons specified in Sections 6.1 and 6.2 of this Article VI shall be made to the fullest extent permitted by law. The provisions of this Article VI shall not be deemed to preclude the indemnification of any person who is not specified in Section 6.1 or 6.2 of this Article VI but whom the corporation has the power or obligation to indemnify under the provisions of the General Corporation Law of the State of Delaware, or otherwise.

#### *6.8 INSURANCE*

The corporation may purchase and maintain insurance on behalf of any person who is or was a director or officer of the corporation, or is or was a director or officer of the corporation serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise against any liability asserted against such person and incurred by such person in any such capacity, or arising out of such person's status as such, whether or not the corporation would have the power or the obligation to indemnify such person against such liability under the provisions of this Article VI.

#### *6.9 CERTAIN DEFINITIONS*

For purposes of this Article VI, references to "the corporation" shall include, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors or officers, so that any person who is or was a director or officer of such constituent corporation, or is or was a director or officer of such constituent corporation serving at the request of such constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, shall stand in the same position under the provisions of this Article VI with respect to the resulting or surviving corporation as such person would have with respect to such constituent corporation if its separate existence had continued. For purposes of this Article VI, references to "fines" shall include any excise taxes assessed on a person with respect to an employee benefit plan; and references to "serving at the request of the corporation" shall include any service as a director, officer, employee or agent of the corporation which imposes duties on, or involves services by, such director or officer with respect to an employee benefit plan, its participants or beneficiaries; and a person who acted in good faith and in a manner such person reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner "not opposed to the best interests of the corporation" as referred to in this Article VI.

#### *6.10 SURVIVAL OF INDEMNIFICATION AND ADVANCEMENT OF EXPENSES*

The indemnification and advancement of expenses provided by, or granted pursuant to, this Article VI shall, unless otherwise provided when authorized or ratified, continue as to a person who has ceased to be a director or officer and shall inure to the benefit of the heirs, executors and administrators of such a person.

#### *6.11 LIMITATION ON INDEMNIFICATION*

Notwithstanding anything contained in this Article VI to the contrary, except for proceedings to enforce rights to indemnification (which shall be governed by Section 6.5 hereof), the corporation shall not be obligated to indemnify any director or officer in connection with a proceeding (or part thereof) initiated by such person unless such proceeding (or part thereof) was authorized or consented to by the board of directors of the corporation.

#### *6.12 INDEMNIFICATION OF EMPLOYEES AND AGENTS*

The corporation may, to the extent authorized from time to time by the board of directors, provide rights to indemnification and to the advancement of expenses to employees and agents of the corporation similar to those conferred in this Article VI to directors and officers of the corporation.

### ARTICLE VII RECORDS AND REPORTS

#### *7.1 MAINTENANCE AND INSPECTION OF RECORDS*

The corporation shall, either at its principal executive office or at such place or places as designated by the board of directors, keep a record of its stockholders listing their names and addresses and the number and class of shares held by each stockholder, a copy of these bylaws as amended to date, accounting books and other records.

Any stockholder of record, in person or by attorney or other agent, shall, upon written demand under oath stating the purpose thereof, have the right during the usual hours for business to inspect for any proper purpose the corporation's stock ledger, a list of its stockholders, and its other books and records and to make copies or extracts therefrom. A proper purpose shall mean a purpose reasonably related to such person's interest as a stockholder. In every instance where an attorney or other agent is the person who seeks the right to inspection, the demand under oath shall be accompanied by a power of attorney or such other writing that authorizes the attorney or other agent to so act on behalf of the stockholder. The demand under oath shall be directed to the corporation at its registered office in Delaware or at its principal place of business.

The officer who has charge of the stock ledger of a corporation shall prepare and make, at least ten (10) days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Nothing contained in this Section shall require the corporation to include electronic mail addresses or other electronic contact information on such list. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting for a period of at least 10 days prior to the meeting: (i) on a reasonably accessible electronic network, provided that the information required to gain access to such list is provided with the notice of the meeting, or (ii) during ordinary business hours, at the principal place of business of the corporation. In the event that the corporation determines to make the list available on an electronic network, the corporation may take reasonable steps to ensure that such information is available only to stockholders of the corporation. If the meeting is to be held at a place, then the list shall be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present. If the meeting is to be held solely by means of remote communication, then the list shall also be open to the examination of any stockholder during the whole time of the meeting on a reasonably accessible electronic network, and the information required to access such list shall be provided with the notice of the meeting.

## *7.2 INSPECTION BY DIRECTORS*

Any director shall have the right to examine the corporation's stock ledger, a list of its stockholders and its other books and records for a purpose reasonably related to his or her position as a director. The Court of Chancery is hereby vested with the exclusive jurisdiction to determine whether a director is entitled to the inspection sought. The Court may summarily order the corporation to permit the director to inspect any and all books and records, the stock ledger, and the stock list and to make copies or extracts therefrom. The Court may, in its discretion, prescribe any limitations or conditions with reference to the inspection, or award such other and further relief as the Court may deem just and proper.

## *7.3 REPRESENTATION OF SHARES OF OTHER CORPORATIONS*

The chairman of the board, the chief executive officer, the president or any other person authorized by the board of directors or the chief executive officer or president, is authorized to vote, represent, and exercise on behalf of this corporation all rights incident to any and all shares of any other corporation or corporations standing in the name of this corporation. The authority herein granted may be exercised either by such person directly or by any other person authorized to do so by proxy or power of attorney duly executed by such person having the authority.

# ARTICLE VIII GENERAL MATTERS

## *8.1 RECORD DATE FOR PURPOSES OTHER THAN NOTICE AND VOTING*

For purposes of determining the stockholders entitled to receive payment of any dividend or other distribution or allotment of any rights or the stockholders entitled to exercise any rights in respect of any other lawful action (other than as provided in Article II hereof), the board of directors may fix, in advance, a record date, which shall not be more than sixty (60) days before any such action. In that case, only stockholders of record at the close of business on the date so fixed are entitled to receive the dividend, distribution or allotment of rights, or to exercise such rights, as the case may be, notwithstanding any transfer of any shares on the books of the corporation after the record date so fixed, except as otherwise provided by law.

If the board of directors does not so fix a record date, then the record date for determining stockholders for any such purpose shall be at the close of business on the day on which the board adopts the applicable resolution or the sixtieth (60th) day before the date of that action, whichever is later.

## **8.2 CHECKS; DRAFTS; EVIDENCES OF INDEBTEDNESS**

From time to time, the board of directors shall determine by resolution which person or persons may sign or endorse all checks, drafts, other orders for payment of money, notes or other evidences of indebtedness that are issued in the name of or payable to the corporation, and only the persons so authorized shall sign or endorse those instruments.

## **8.3 CORPORATE CONTRACTS AND INSTRUMENTS: HOW EXECUTED**

The board of directors, except as otherwise provided in these bylaws, may authorize any officer or officers, or agent or agents, to enter into any contract or execute any instrument in the name of and on behalf of the corporation; such authority may be general or confined to specific instances. Unless so authorized or ratified by the board of directors or within the agency power of an officer, no officer, agent or employee shall have any power or authority to bind the corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or for any amount.

## **8.4 STOCK CERTIFICATES**

The shares of a corporation shall be represented by certificates; provided that the board of directors of the corporation may provide by resolution or resolutions that some or all of any or all classes or series of the stock of the corporation shall be uncertificated shares; provided further, however, that no shares of the corporation designated or otherwise identified by the board of directors or by the corporation prior to the issuance thereof as digital or cryptographic shares or as shares to be issued in digital or cryptographic form (any such shares being herein called "Digital Shares") shall be represented by certificates. Any such resolution of the board of directors providing for uncertificated shares shall not apply to shares then represented by a certificate until such certificate is surrendered to the corporation. Notwithstanding the adoption of such a resolution by the board of directors, every holder of stock represented by certificates, and upon request every holder of uncertificated shares (other than any holder of Digital Shares, with respect to such Digital Shares), shall be entitled to have a certificate signed in the name of the corporation by (a) the chairman or vice-chairman of the board of directors, or the chief executive officer, president or any vice-president of the corporation, and by (b) the chief financial officer, treasurer, assistant treasurer, secretary or an assistant secretary of the corporation representing the number of then uncertificated shares to be registered in certificate form. Any or all of the signatures on the certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate has ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the corporation with the same effect as if he or she were such officer, transfer agent or registrar at the date of issue.

## **8.5 SPECIAL DESIGNATION ON CERTIFICATES**

If the corporation is authorized to issue more than one class of stock or more than one series of any class, then the powers, the designations, the preferences, and the relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights shall be set forth in full or summarized on the face or back of the certificate that the corporation shall issue to represent such class or series of stock; provided, however, that, except as otherwise provided in Section 202 of the General Corporation Law of Delaware, in lieu of the foregoing requirements there may be set forth on the face or back of the certificate that the corporation shall issue to represent such class or series of stock a statement that the corporation will furnish without charge to each stockholder who so requests the powers, the designations, the preferences, and the relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights.

## **8.6 LOST CERTIFICATES**

Except as provided in this Section 8.6, no new certificates for shares shall be issued to replace a previously issued certificate unless the latter is surrendered to the corporation and canceled at the same time. The board of directors may, in case any share certificate or certificate for any other security is lost, stolen or destroyed, authorize the issuance of replacement certificates on such terms and conditions as the board may require; the board may require indemnification of the corporation secured by a bond or other adequate security sufficient to protect the corporation against any claim that may be made against it, including any expense or liability, on account of the alleged loss, theft or destruction of the certificate or the issuance of the replacement certificate.

## **8.7 CONSTRUCTION; DEFINITIONS**

Unless the context requires otherwise, the general provisions, rules of construction, and definitions in the General Corporation Law of Delaware shall govern the construction of these bylaws. Without limiting the generality of this provision, the singular number includes the plural, the plural number includes the singular, and the term "person" includes both a corporation and a natural person. Also without limiting the generality of this provision, for purposes of these Bylaws, "electronic transmission" means any form of communication, not directly involving the physical transmission of paper, that

creates a record that may be retained, retrieved, and reviewed by a recipient thereof, and that may be directly reproduced in paper form by such a recipient through an automated process.

ARTICLE IX  
AMENDMENTS

These bylaws of the corporation may be altered, amended or repealed, in whole or in part, or new bylaws may be adopted, by the stockholders entitled to vote or by the board of directors. All such amendments must be approved by either the holders of sixty-six and two thirds percent (66-2/3%) of the voting power of outstanding capital stock entitled to vote at an election of directors or by a majority of the board of directors then in office. The fact that such power has been so conferred upon the board of directors shall not divest the stockholders of the power, nor limit their power to adopt, alter, amend or repeal bylaws.

ARTICLE X.  
EXCLUSIVE FORUM

Unless the corporation consents in writing to the selection of an alternative forum, the sole and exclusive forum for (i) any derivative action or proceeding brought on behalf of the corporation, (ii) any action asserting a claim of breach of a fiduciary duty owed by any director or officer or other employee of the corporation to the corporation or the corporation's stockholders, (iii) any action asserting a claim against the corporation or any director or officer or other employee of the corporation arising pursuant to any provision of the Delaware General Corporation Law or the corporation's Certificate of Incorporation or Bylaws (as either may be amended from time to time), or (iv) any action asserting a claim against the corporation or any director or officer or other employee of the corporation governed by the internal affairs doctrine shall be a state court located within the State of Delaware (or, if no state court located within the State of Delaware has jurisdiction, the federal district court for the District of Delaware), in all cases to the fullest extent permitted by applicable law and subject to the court's having personal jurisdiction over the indispensable parties named as defendants.

**AMENDMENT NO. 1 TO REGISTRATION RIGHTS AGREEMENT**

Overstock.com, Inc., a Delaware corporation and Patrick M. Byrne, individually and in his representative capacity under the Registration Rights Agreement dated December 15, 2016 to which they are parties, hereby amend the Registration Rights Agreement as set forth below. Capitalized terms used but not defined herein have the meanings given them in the Registration Rights Agreement.

1. The definitions of “Effectiveness Date” and “Filing Date” in Article 1 are amended to read as follows:

“**Effectiveness Date**” means (1) with respect to a registration effected pursuant to Section 2.1, the 210th calendar day following the Closing Date, and (2) with respect to a registration effected pursuant to Section 2.2, the 120th calendar day following the receipt of the applicable Registration Request; *provided, however*, that, in either case, if the Effectiveness Date falls on a day that is not a Business Day, then the Effectiveness Date shall be extended to the next Business Day.

“**Filing Date**” means (1) with respect to a registration effected pursuant to Section 2.1, the 180th calendar day following the Closing Date, and (2) with respect to a registration effected pursuant to Section 2.2, the 90<sup>th</sup> calendar day following the receipt of a Registration Request; *provided, however*, that, in either case, if the Filing Date falls on a day that is not a Business Day, then the Filing Date shall be extended to the next Business Day.

2. The Company’s zip code as shown in Section 6.3 is hereby amended to read as follows: “84047”.

3. Patrick M. Byrne, as the Holder of 100% of all Registrable Securities outstanding, hereby consents to the foregoing amendments to the Registration Rights Agreement.

**IN WITNESS WHEREOF**, the parties hereto have caused this Amendment No. 1 to Registration Rights Agreement to be duly executed effective March 10, 2017.

**OVERSTOCK.COM, INC.**

By: /s/ E. GLEN NICKLE

Name: E. Glen Nickle

Title: Vice President, Legal and acting General Counsel

**PATRICK M. BYRNE,**

Individually and in his capacity as Representative of each of the Participating Affiliates

/s/ PATRICK M. BYRNE

Patrick M. Byrne

## CERTIFICATION

I, Patrick M. Byrne, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Overstock.com, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 4, 2017

/s/ PATRICK M. BYRNE

Patrick M. Byrne  
Chief Executive Officer  
(principal executive officer)

## CERTIFICATION

I, Robert P. Hughes, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Overstock.com, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 4, 2017

/s/ ROBERT P. HUGHES

Robert P. Hughes  
Senior Vice President, Finance and Risk Management  
(principal financial officer)



**CERTIFICATION OF CHIEF EXECUTIVE OFFICER**

**PURSUANT TO**

**18 U.S.C. SECTION 1350,**

**AS ADOPTED PURSUANT TO**

**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Patrick M. Byrne, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Overstock.com, Inc. on Form 10-Q for the quarter ended March 31, 2017 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as applicable, and that information contained in such Report fairly presents in all material respects the financial condition and results of operations of Overstock.com, Inc.

Date: May 4, 2017

/s/ PATRICK M. BYRNE

Patrick M. Byrne

Chief Executive Officer

(principal executive officer)

**CERTIFICATION OF CHIEF FINANCIAL OFFICER**

**PURSUANT TO**

**18 U.S.C. SECTION 1350,**

**AS ADOPTED PURSUANT TO**

**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Robert P. Hughes, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Overstock.com, Inc. on Form 10-Q for the quarter ended March 31, 2017 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as applicable, and that information contained in such Report fairly presents in all material respects the financial condition and results of operations of Overstock.com, Inc.

Date: May 4, 2017

/s/ ROBERT P. HUGHES

Robert P. Hughes

Senior Vice President, Finance and Risk Management

(principal financial officer)

