PIMCO HIGH INCOME FUND
Form N-Q
August 22, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM N-Q

QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED MANAGEMENT INVESTMENT COMPANY

Investment Company Act file number 811-21311

PIMCO High Income Fund
(Exact name of registrant as specified in charter)

1633 Broadway New York, New York 10019
(Address of principal executive offices) (Zip code)

Lawrence G. Altadonna 1633 Broadway New York, New York 10019
(Name and address of agent for service)

Registrant s telephone number, including area code: 212-739-3371

Date of fiscal year end: March 31, 2015

Date of reporting period: June 30, 2014

Item 1. Schedule of Investments

Schedule of Investments

PIMCO High Income Fund

June 30, 2014 (unaudited)

Principal Amount (000s)		Value*
U.S. GOVERNMENT AGENCY SECURITIES - 44.4%		
	Fannie Mae,	
$54,453	2.50%, 9/25/27, CMO, IO	$5,632,618
8,420	3.00%, 5/25/32, CMO, IO	1,409,827
47,929	3.50%, 9/25/27 - 10/25/41, CMO, IO	7,500,450
7,777	4.00%, 5/25/20 - 11/25/42, CMO, IO	1,097,987
38,020	4.50%, 1/25/43 - 2/25/43, CMO, IO	9,344,075
9,392	5.898%, 11/25/36, CMO, IO (k)	1,287,843
2,908	5.998%, 9/25/42, CMO, IO (k)	703,771
68,382	6.048%, 6/25/42 - 10/25/42, CMO, IO (k)	12,505,628
11,468	6.098%, 8/25/41, CMO, IO (k)	2,180,567
19,883	6.398%, 5/25/42, CMO, IO (k)	3,946,481
85,654	6.448%, 10/25/43, CMO, IO (k)	18,867,214
451,092	6.518%, 10/25/17 - 1/25/18, IO (k)	46,490,403
14,922	6.528%, 1/25/37, CMO, IO (k)	2,578,477
4,980	6.548%, 1/25/35, CMO, IO (k)	706,432
2,071	9.696%, 10/25/41, CMO (b)(k)	2,182,390
221	10.00%, 1/25/34, CMO (b)(k)	277,442
27,325	11.595%, 8/25/43, CMO (b)(h)(k)	29,282,894
5,239	15.392%, 5/25/43, CMO (b)(k)	5,972,808
23,038	15.396%, 3/25/43 - 5/25/43, CMO (b)(k)	25,322,311
10,569	20.016%, 11/25/43, CMO (b)(k)	12,267,238
	Freddie Mac, CMO,	
5,475	2.50%, 7/15/42, IO	755,078
95,559	3.00%, 12/15/42, IO	20,110,748
34,812	3.50%, 12/15/26 - 1/15/43, IO	6,627,975
7,341	4.00%, 8/15/20 - 8/15/42, IO	1,227,570
1,934	4.50%, 10/15/37, IO	264,116
3,489	5.00%, 6/15/33, IO (k)	598,041
2,219	5.848%, 8/15/42, IO (k)	480,912
2,352	5.948%, 7/15/35, IO (k)	364,098
49,748	5.998%, 10/15/42, IO (k)	10,095,481
10,726	6.048%, 9/15/41 - 2/15/42, IO (k)	2,000,456
68,292	6.348%, 4/15/42, IO (k)	14,851,137
44,414	6.388%, 2/15/42, IO (k)	8,665,288
14,095	6.468%, 11/15/36, IO (k)	2,330,171
44,049	6.498%, 2/15/41 - 5/15/41, IO (k)	8,198,246
6,526	6.548%, 7/15/42, IO (k)	1,517,783
1,401	6.988%, 8/15/36, IO (k)	264,366
11,683	8.557%, 12/15/40 (b)(k)	11,370,239
25,326	9.556%, 1/15/41 (b)(h)(k)	25,621,495

32,153	9.698%, 11/15/40 (b)(h)(k)	33,896,605
22,378	11.464%, 12/15/40 - 8/15/43 (b)(k)	23,628,727
103,771	11.597%, 12/15/43 (b)(h)(k)	109,934,268
34,328	11.597%, 12/15/43 - 3/15/44 (b)(k)	35,769,735
31,479	11.729%, 4/15/43 (b)(h)(k)	34,782,524
20,581	11.862%, 7/15/36 (b)(h)(k)	21,929,079
104	12.697%, 5/15/33 (b)(k)	123,162
	Ginnie Mae, CMO,	
41,206	3.50%, 1/20/42 - 3/20/43, IO	6,149,698
50,709	4.00%, 3/20/42 - 3/20/43, IO	8,209,222
93,919	4.50%, 1/20/36 - 7/20/42, IO	19,562,036
818	5.00%, 9/20/42, IO	172,993
6,502	5.977%, 10/20/41, IO (k)	938,246
125,895	5.997%, 10/20/41, IO (k)	19,527,789
8,738	6.048%, 10/16/42, IO (k)	1,566,295
30,515	6.097%, 2/20/42, IO (k)	5,317,374
7,217	6.497%, 1/20/41, IO (k)	1,451,184
12,685	6.548%, 5/16/42, IO (k)	2,610,482
3,737	7.227%, 11/20/36, IO (k)	732,376
51,389	8.463%, 4/20/39 (b)(h)(k)	59,267,117
60,834	8.596%, 8/20/39 (b)(h)(k)	69,748,187
15,000	9.197%, 2/16/41 (b)(k)	16,282,212
3,121	11.592%, 2/20/44 (b)(k)	3,276,165
5,454	11.597%, 1/16/44 (b)(k)	5,612,911
7,364	12.00%, 12/20/39 (b)(e)(k)	7,791,051
3,406	13.27%, 12/20/39 (b)(k)	3,607,582
3,857	13.28%, 12/20/39 (b)(e)(k)	4,120,325
6,055	13.43%, 12/20/39 (b)(k)	6,432,511
10,023	14.541%, 12/20/40 (b)(k)	12,831,037
7,147	20.017%, 12/16/43 (b)(k)	7,823,424
Total U.S. Government Agency Securities (cost-$809,782,572)		827,994,373

CORPORATE BONDS & NOTES - 21.5%		
Airlines - 0.0%		
3,930	American Airlines Pass-Through Trust, 10.18%, 1/2/13 (b)(d)(e)	39,295
Auto Manufacturers - 0.6%		
9,100	Ford Motor Co., 7.70%, 5/15/97 (h)	10,876,748
Banking - 6.9%		
16,000	Banco Popular Espanol S.A., 11.50%, 10/10/18 (f)	26,454,882
$10,700	Barclays Bank PLC, 7.625%, 11/21/22 (h)	12,198,000
	Barclays PLC (f),	
3,000	8.00%, 12/15/20	4,494,044
$2,000	8.25%, 12/15/18	2,124,000
5,000	BPCE S.A., 12.50%, 9/30/19 (a)(b)(c)(f)(h)(i) (acquisition cost - $6,412,500; purchased 3/12/14)	6,900,000
3,000	Citigroup, Inc., 6.125%, 8/25/36 (h)	3,459,222
4,000	Credit Agricole S.A., 7.875%, 1/23/24 (f)	4,375,000
	LBG Capital No. 1 PLC,	
1,885	7.375%, 3/12/20 (h)	2,816,272
$2,000	8.50%, 12/17/21 (a)(c)(f)	2,213,596
	LBG Capital No. 2 PLC,	
£284	9.00%, 12/15/19	516,415
5,500	9.125%, 7/15/20	9,949,034
$30,800	Lloyds Bank PLC, 12.00%, 12/16/24 (a)(b)(c)(f)(h)(i) (acquisition cost - $32,316,500; purchased 8/3/10 - 2/28/12)	44,968,000
7,500	Sberbank of Russia Via SB Capital S.A., 6.125%, 2/7/22 (a)(c)(h)	8,053,125
		128,521,590
Chemicals - 0.2%		
2,000	Perstorp Holding AB, 9.00%, 5/15/17	3,012,461
Diversified Financial Services - 5.6%		
$27,410	AGFC Capital Trust I, 6.00%, 1/15/67 (converts to FRN on 1/15/17) (a)(c)(h)	23,709,650
5,300	Ally Financial, Inc., 6.25%, 12/1/17 (h)	5,936,000
13,300	GMAC International Finance BV, 7.50%, 4/21/15	19,135,755
$8,462	GSPA Monetization Trust, 6.422%, 10/9/29 (a)(b)(c)(h)(i) (acquisition cost - $8,361,182; purchased 9/23/13)	8,782,583
18,000	International Lease Finance Corp., 6.98%, 10/15/18 (e)(k)	18,029,557
28,300	Rio Oil Finance Trust, 6.25%, 7/6/24 (a)(b)(c)(h)(i) (acquisition cost - $28,299,434; purchased 6/12/14)	29,753,998
		105,347,543
Electric Utilities - 0.2%		
3,820	Bruce Mansfield Unit, 6.85%, 6/1/34 (h)	4,202,265
337	GenOn REMA LLC, 9.237%, 7/2/17	355,472
		4,557,737
Home Builders - 1.0%		
20,794	Hampton Roads PPV LLC, 6.621%, 6/15/53 (a)(b)(c)(e)(i) (acquisition cost - $17,548,130; purchased 2/11/14)	18,639,370
Insurance - 1.5%		
2,518	American International Group, Inc., 6.25%, 3/15/87 (converts to FRN on 3/15/37) (h)	2,829,602
25,000	Doctors Co., 6.50%, 10/15/23 (a)(c)(h)	25,543,075
		28,372,677
Iron/Steel - 0.3%		
4,500	GTL Trade Finance, Inc., 7.25%, 4/16/44 (a)(c)(h)	4,752,000

Media - 1.2%		
	Numericable Group S.A. (a)(c)(h),	
1,900	6.00%, 5/15/22	1,978,375
18,900	6.25%, 5/15/24	19,750,500
		21,728,875
Oil, Gas & Consumable Fuels - 0.4%		
5,700	Anadarko Petroleum Corp., 7.00%, 11/15/27 (h)	6,753,155
337	CGG S.A., 7.75%, 5/15/17	342,897
		7,096,052
Real Estate - 0.4%		
4,996	Midwest Family Housing LLC, 6.631%, 1/1/51 (CIFG) (a)(b)(c)(e)(i) (acquisition cost - $4,016,470; purchased 9/25/12)	3,907,802
4,735	Tri-Command Military Housing LLC, 5.383%, 2/15/48 (NPFGC) (a)(b)(c)(i) (acquisition cost - $3,993,906; purchased 9/19/12)	4,201,721
		8,109,523

Telecommunications - 1.5%		
1,122	CenturyLink, Inc., 7.20%, 12/1/25 (h)	1,180,905
15,200	Mountain States Telephone & Telegraph Co., 7.375%, 5/1/30 (h)	17,288,106
6,000	Telefonica Europe BV, 6.50%, 9/18/18 (f)	9,069,012
		27,538,023
Transportation - 1.7%		
£17,500	Russian Railways via RZD Capital PLC, 7.487%, 3/25/31 (h)	32,195,709
Total Corporate Bonds & Notes (cost-$350,686,443)		400,787,603
MUNICIPAL BONDS - 17.0%		
California - 6.0%		
$2,000	Anaheim Redev. Agcy., Tax Allocation, GO, 6.506%, 2/1/31, Ser. D (AGM)	2,226,160
1,100	City & Cnty. of San Francisco, Capital Improvement Projects, CP, 6.487%, 11/1/41, Ser. D	1,335,026
35,500	Contra Costa Community College Dist., GO, 6.504%, 8/1/34	42,501,665
	Golden State Tobacco Securitization Corp. Rev.,	
200	5.00%, 6/1/35, Ser. A (FGIC)	206,308
4,200	5.75%, 6/1/47, Ser. A-1	3,340,344
3,425	Long Beach Redev. Agcy., Tax Allocation, 8.36%, 8/1/40	3,663,414
6,665	Los Angeles Department of Water & Power Rev., 7.003%, 7/1/41	7,657,418
15,100	Oakland Unified School Dist., Alameda Cnty., GO, 9.50%, 8/1/34	17,833,402
1,500	Sacramento Cnty. Rev., 7.25%, 8/1/25	1,747,680
	San Diego Redev. Agcy., Tax Allocation, Ser. A,	
7,500	7.625%, 9/1/30	8,031,600
6,500	7.75%, 9/1/40	6,941,870
305	San Diego Tobacco Settlement Funding Corp. Rev., 7.125%, 6/1/32	300,883
6,000	State, GO, 7.70%, 11/1/30	7,406,760
7,070	State Public Works Board Rev., 8.00%, 3/1/35, Ser. A-2	8,438,045
		111,630,575
Colorado - 0.1%		
1,000	Upper Eagle Regional Water Auth. Rev., 6.518%, 12/1/39, Ser. B	1,081,480
District of Columbia - 0.5%		
7,500	District of Columbia Howard Univ. Rev., 7.625%, 10/1/35, Ser. B	8,546,250
Georgia - 0.1%		
1,665	Municipal Electric Auth. of Georgia Rev., 7.055%, 4/1/57	1,890,075
Illinois - 2.8%		
	Chicago, GO,	
11,000	6.257%, 1/1/40, Ser. D	11,126,940
34,805	7.517%, 1/1/40, Ser. B	41,564,479
		52,691,419
Nebraska - 1.1%		
18,500	Public Power Generation Agcy. Rev., 7.242%, 1/1/41	20,966,605
Nevada - 1.3%		
20,000	Las Vegas Valley Water Dist., GO, 7.263%, 6/1/34	21,730,000
3,900	North Las Vegas, GO, 6.572%, 6/1/40	3,332,823
		25,062,823
New Jersey - 0.0%		
700	Tobacco Settlement Financing Corp. Rev., 5.00%, 6/1/41, Ser. 1-A	521,248
New York - 0.2%		
3,825	Erie Tobacco Asset Securitization Corp. Rev., 6.00%, 6/1/28, Ser. E	3,555,491

Ohio - 1.1%		
20,000	Princeton City School Dist., GO, 6.39%, 12/1/47, Ser. C	20,249,400
Pennsylvania - 2.6%		
8,800	Economic Dev. Financing Auth. Rev., 6.532%, 6/15/39, Ser. B	10,034,288
5,115	Northampton Cnty. General Purpose Auth. Rev., 5.902%, 11/1/53, Ser. B	5,321,032
	School Dist. of Philadelphia, GO,	
7,000	6.615%, 6/1/30	7,262,430
25,000	6.765%, 6/1/40	26,105,750
		48,723,500
Texas - 0.4%		
7,535	El Paso Downtown Dev. Corp. Rev., 7.25%, 8/15/43 (b)	8,144,958
Washington - 0.5%		
8,000	Spokane Cnty. Wastewater System Rev., 6.474%, 12/1/29	9,026,240

Wisconsin - 0.3%		
5,690	Green Bay Redev. Auth. Rev., 6.15%, 6/1/43 (b)	6,037,943
Total Municipal Bonds (cost-$295,818,107)		318,128,007
MORTGAGE-BACKED SECURITIES - 12.5%		
7,184	Alternative Loan Trust, 6.00%, 8/25/36, CMO	6,548,478
1,407	American Home Mortgage Assets Trust, 6.25%, 6/25/37, CMO	965,245
	Banc of America Alternative Loan Trust, CMO,	
15,436	5.448%, 6/25/46, IO (k)	2,225,017
6,868	6.00%, 3/25/36	5,193,204
122	6.00%, 6/25/46 (k)	104,195
1,096	Banc of America Funding Trust, 6.00%, 7/25/37, CMO	846,223
47	Banc of America Mortgage Trust, 2.694%, 2/25/36, CMO (k)	40,746
	BCAP LLC Trust, CMO (a)(c),	
3,606	5.208%, 3/26/37 (k)	1,262,226
9,004	13.50%, 10/26/36	7,330,827
8,896	14.369%, 9/26/36	7,702,590
3,133	17.086%, 6/26/36 (k)	849,686
	Bear Stearns Adjustable Rate Mortgage Trust, CMO (k),	
645	2.936%, 5/25/47	551,704
261	5.184%, 11/25/34	257,896
	Chase Mortgage Finance Trust, CMO,	
43	2.519%, 12/25/35 (k)	39,699
14	5.50%, 5/25/36	13,138
251	5.647%, 9/25/36 (k)	231,604
7,854	CHL Mortgage Pass-Through Trust, 5.198%, 12/25/36, CMO, IO (k)	1,082,676
	Citigroup Mortgage Loan Trust, Inc., CMO,	
289	2.747%, 7/25/37 (k)	260,507
169	3.684%, 7/25/46 (k)	138,201
1,505	5.72%, 8/25/37 (k)	1,298,069
4,971	6.50%, 9/25/36 (a)(c)	3,708,421
	CitiMortgage Alternative Loan Trust, CMO,	
951	6.00%, 12/25/36	833,313
272	6.00%, 6/25/37	233,395
	Countrywide Alternative Loan Trust, CMO,	
610	0.402%, 12/25/35 (k)	753,512
566	2.664%, 2/25/37 (k)	506,116
1,819	3.465%, 7/25/46 (k)	1,718,642
10,858	4.848%, 4/25/35, IO (k)	1,253,623
964	5.112%, 7/25/21 (k)	926,398
529	5.50%, 3/25/36	435,549
4,560	6.00%, 3/25/36	3,880,112
8,579	6.00%, 5/25/36	7,075,167
405	6.00%, 11/25/36	344,998
9,979	6.00%, 2/25/37	7,799,661
8,034	6.00%, 3/25/37	6,600,248
10,298	6.00%, 5/25/37	8,617,519
3,386	6.00%, 2/25/47	2,712,442
5,422	6.25%, 12/25/36 (k)	4,540,692
482	6.25%, 8/25/37	399,530
1,587	6.50%, 6/25/36	1,268,042
8,959	6.50%, 9/25/37	7,343,184
12,016	6.50%, 11/25/37	10,229,239
	Countrywide Home Loan Mortgage Pass-Through Trust, CMO,	
946	2.514%, 9/20/36 (k)	704,107
108	2.666%, 9/25/47 (k)	96,740
2,388	5.75%, 6/25/37	2,206,201

575	6.00%, 4/25/37	528,631
8,957	6.00%, 5/25/37	7,827,794
4,137	6.00%, 7/25/37	3,545,561
2,401	6.25%, 9/25/36	2,122,302
3,739	Credit Suisse First Boston Mortgage Securities Corp., 6.00%, 1/25/36, CMO	2,967,835
	Credit Suisse Mortgage Capital Certificates Mortgage-Backed Trust, CMO,	
5,864	5.863%, 2/25/37 (k)	3,215,273
2,018	6.50%, 10/25/21	1,810,665
2,446	Deutsche ALT-B Securities Mortgage Loan Trust, 5.945%, 2/25/36, CMO	1,996,605
3,564	First Horizon Alternative Mortgage Securities Trust, 6.00%, 5/25/36, CMO	3,050,279
1,990	GMAC Commercial Mortgage Asset Corp., 6.107%, 8/10/52 (a)(b)(c)(i) (acquisition cost - $2,084,165; purchased 6/27/14)	2,084,165
	Harborview Mortgage Loan Trust, CMO (k),	
850	2.471%, 8/19/36	625,631
65	4.882%, 8/19/36	60,646
3,777	IndyMac Index Mortgage Loan Trust, 2.849%, 5/25/37, CMO (k)	2,668,039
13,183	JPMorgan Alternative Loan Trust, 2.585%, 3/25/37, CMO (k)	10,397,013
	JPMorgan Mortgage Trust, CMO,	
577	2.644%, 1/25/37 (k)	507,719
592	5.75%, 1/25/36	552,558
36,455	6.468%, 1/25/37, IO (k)	7,652,970

205	Merrill Lynch Mortgage-Backed Securities Trust, 3.049%, 4/25/37, CMO (k)	174,602
2,959	Morgan Stanley Mortgage Loan Trust, 6.00%, 10/25/37, CMO	2,423,206
9,800	RBSSP Resecuritization Trust, 49.921%, 6/26/37, CMO (a)(c)(k)	5,951,501
	Residential Accredit Loans, Inc., CMO,	
7,054	6.00%, 4/25/36	5,868,636
3,015	6.00%, 6/25/36	2,464,039
7,230	6.00%, 12/25/36	5,737,617
2,684	6.50%, 7/25/37	2,269,825
	Residential Asset Securitization Trust, CMO,	
1,567	6.00%, 9/25/36	1,052,602
956	6.25%, 10/25/36	809,553
6,965	6.25%, 9/25/37	4,835,170
1,136	6.50%, 8/25/36	799,663
3,759	Residential Funding Mortgage Securities I, 6.25%, 8/25/36, CMO	3,445,656
110	Sequoia Mortgage Trust, 2.366%, 1/20/47, CMO (k)	96,201
	Structured Adjustable Rate Mortgage Loan Trust, CMO (k),	
1,264	2.77%, 4/25/47	1,021,863
331	5.052%, 1/25/36	256,293
	WaMu Mortgage Pass-Through Certificates, CMO (k),	
205	1.85%, 1/25/37	182,219
178	1.947%, 4/25/37	156,464
1,655	2.049%, 11/25/36	1,466,919
134	2.054%, 12/25/36	117,560
366	2.193%, 2/25/37	305,602
399	2.311%, 2/25/37	341,389
280	2.776%, 5/25/37	239,126
	Washington Mutual Mortgage Pass-Through Certificates, CMO,	
231	0.883%, 4/25/47 (k)	10,347
8,753	6.00%, 7/25/36	6,788,704
13,979	6.00%, 6/25/37	11,771,480
11,262	6.50%, 3/25/36	8,020,693
18,643	6.528%, 4/25/37, IO (k)	4,721,807
166	Wells Fargo Mortgage-Backed Securities Trust, 2.702%, 9/25/36, CMO (k)	156,486
Total Mortgage-Backed Securities (cost-$219,255,126)		234,227,691
ASSET-BACKED SECURITIES - 2.3%		
2,852	Argent Securities, Inc. Asset-Backed Pass-Through Certificates, 0.382%, 1/25/36 (k)	1,923,625
13,700	Countrywide Asset-Backed Certificates, 5.255%, 7/25/36	9,518,007
3,131	GSAA Home Equity Trust, 5.772%, 11/25/36 (k)	1,947,958
	GSAA Trust,	
4,865	5.80%, 3/25/37	2,769,712
3,480	5.917%, 3/25/37 (k)	1,824,731
9,491	5.983%, 3/25/37	5,875,862
3,845	JPMorgan Mortgage Acquisition Trust, 4.964%, 1/25/37	3,067,793
	Morgan Stanley Mortgage Loan Trust,	
1,036	5.75%, 11/25/36 (k)	574,248
11,643	5.965%, 9/25/46	8,039,962
2,052	6.25%, 7/25/47 (k)	1,537,106
8,942	Renaissance Home Equity Loan Trust, 6.998%, 9/25/37	5,971,261
364	Washington Mutual Asset-Backed Certificates, 0.302%, 5/25/36 (k)	248,163
Total Asset-Backed Securities (cost-$39,811,717)		43,298,428
Shares		
PREFERRED STOCK - 1.7%		

Banking - 0.7%		
455,000	GMAC Capital Trust I, 8.125%, 2/15/16, Ser. 2 (j)	12,421,500
Diversified Financial Services - 1.0%		
15,400	Farm Credit Bank, 10.00%, 12/15/20, Ser. 1 (f)	18,686,938
Total Preferred Stock (cost-$30,616,425)		31,108,438
Principal Amount (000s)		
SHORT-TERM INVESTMENTS - 0.6%		
Repurchase Agreements - 0.6%		
$10,400	Morgan Stanley & Co., Inc., dated 6/30/14, 0.15%, due 7/1/14, proceeds $10,400,043; collateralized by U.S. Treasury Bonds, 3.125%, due 2/15/42, valued at $10,627,092 including accrued interest (cost-$10,400,000)	10,400,000
U.S. Treasury Obligations - 0.0%		
260	U.S. Treasury Bills, 0.03%, 8/21/14 (g)(l) (cost-$259,989)	259,989
Total Short-Term Investments (cost-$10,659,989)		10,659,989
Total Investments (cost-$1,756,630,379) (m)**-100.0%**		**$1,866,204,529**

Notes to Schedule of Investments:

* Portfolio securities and other financial instruments for which market quotations are readily available are stated at market value. Market value is generally determined on the basis of last reported sales prices, or if no sales are reported, on the basis of quotes obtained from a quotation reporting system, established market makers, or independent pricing services. The Fund s investments are valued daily using prices supplied by an independent pricing service or dealer quotations, or by using the last sale price on the exchange that is the primary market for such securities, or the mean between the last quoted bid and ask price. Independent pricing services use information provided by market makers or estimates of market values obtained from yield data relating to investments or securities with similar characteristics. Centrally cleared swaps are valued at the price determined by the relevant exchange.

The Board of Trustees (the Board) has adopted procedures for valuing portfolio securities and other financial instruments in circumstances where market quotes are not readily available, and has delegated the responsibility for applying the valuation methods to Allianz Global Investors Fund Management LLC (the Investment Manager) and Pacific Investment Management Company LLC (the Sub-Adviser). The Fund s Valuation Committee was established by the Board to oversee the implementation of the Fund s valuation methods and to make fair value determinations on behalf of the Board, as instructed. The Sub-Adviser monitors the continued appropriateness of methods applied and determines if adjustments should be made in light of market changes, events affecting the issuer, or other factors. If the Sub-Adviser determines that a valuation method may no longer be appropriate, another valuation method may be selected, or the Valuation Committee will be convened to consider the matter and take any appropriate action in accordance with procedures set forth by the Board. The Board shall review the appropriateness of the valuation methods and these methods may be amended or supplemented from time to time by the Valuation Committee.

Benchmark pricing procedures are used as the basis for setting the base price of a fixed-income security and for subsequently adjusting the price proportionally to market value changes of a pre-determined security deemed to be comparable in duration, generally a U.S. Treasury or sovereign note based on country of issuance. The base price may be a broker-dealer quote, transaction price, or an internal value as derived by analysis of market data. The base price of the security may be reset on a periodic basis based on the availability of market data and procedures approved by the Valuation Committee. The validity of the fair value is reviewed by the Sub-Adviser on a periodic basis and may be amended as the availability of market data indicates a material change.

Short-term securities maturing in 60 days or less are valued at amortized cost, if their original term to maturity was 60 days or less, or by amortizing premium or discount based on their value on the 61st day prior to maturity, if the original term to maturity exceeded 60 days.

Investments initially valued in currencies other than the U.S. dollar are converted to the U.S. dollar using exchange rates obtained from pricing services. As a result, the net asset value (NAV) of the Fund s shares may be affected by changes in the value of currencies in relation to the U.S. dollar. The value of securities traded in markets outside the United States or denominated in currencies other than the U.S. dollar may be affected significantly on a day that the New York Stock Exchange (NYSE) is closed.

The prices used by the Fund to value investments may differ from the value that would be realized if the investments were sold, and these differences could be material. The Fund s NAV is normally determined as of the close of regular trading (normally, 4:00 p.m. Eastern time) on the NYSE on each day the NYSE is open for business.

(a) Private Placement Restricted as to resale and may not have a readily available market. Securities with an aggregate value of $232,043,211, representing 12.4% of total investments.

(b) Illiquid.

(c) 144A Exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, typically only to qualified institutional buyers. Unless otherwise indicated, these securities are not considered to be illiquid.

(d) In default.

(e) Fair-Valued Securities with an aggregate value of $52,527,400, representing 2.8% of total investments.

(f) Perpetual maturity. The date shown, if any, is the next call date. For Corporate Bonds & Notes the interest rate is fixed until the first call date and variable thereafter.

(g) All or partial amount segregated for the benefit of the counterparty as collateral for derivatives.

(h) All or partial amount transferred for the benefit of the counterparty as collateral for reverse repurchase agreements.

(i) Restricted. The aggregate acquisition cost of such securities is $103,032,287. The aggregate value is $119,237,639, representing 6.4% of total investments.

(j) Dividend rate is fixed until the first call date and variable thereafter.

(k) Variable or Floating Rate Security Securities with an interest rate that changes periodically. The interest rate disclosed reflects the rate in effect on June 30, 2014.

(l) Rates reflect the effective yields at purchase date.

(m) At June 30, 2014, the cost basis of portfolio securities of $1,756,630,379 was substantially the same for both federal income tax and book purposes. Gross unrealized appreciation was $121,567,743; gross unrealized depreciation was $11,993,593; and net unrealized appreciation was $109,574,150.

(n) Credit default swap agreements outstanding at June 30, 2014:

OTC sell protection swap agreements(1):

Swap Counterparty/ Referenced Debt Issuer	Notional Amount (000s)(3)	Credit Spread(2)	Termination Date	Payments Received	Value(4)	Upfront Premiums Paid (Received)	Unrealized Appreciation
Barclays Bank:							
Mexico Government International Bond	$5,000	1.12%	6/20/24	1.00%	$(50,378)	$(139,637)	$89,259
Citigroup:							
Mexico Government International Bond	10,000	1.12%	6/20/24	1.00%	(100,757)	(304,091)	203,334
HSBC Bank:							
Mexico Government International Bond	10,000	1.12%	6/20/24	1.00%	(100,756)	(295,829)	195,073
Morgan Stanley:							
Mexico Government International Bond	25,000	0.63%	6/20/19	1.00%	449,229	171,438	277,791
					$197,338	$(568,119)	$765,457

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(1) If the Fund is a seller of protection and a credit event occurs, as defined under the terms of that particular swap agreement, the Fund will either (i) pay to the buyer of protection an amount equal to the notional amount of the swap and take delivery of the referenced obligation, other deliverable obligations or underlying securities comprising the referenced index or (ii) pay a net settlement amount in the form of cash or securities equal to the notional amount of the swap less the recovery value of the referenced obligation or underlying securities comprising the referenced index. Recovery values are assumed by market makers considering either industry standard recovery rates or entity specific factors and considerations until a credit event occurs. If a credit event has occurred, the recovery value is determined by a facilitated auction whereby a minimum number of allowable broker bids, together with a specified valuation method, are used to calculate the settlement value.

(2) Implied credit spreads, represented in absolute terms, utilized in determining the market value of credit default swap agreements as of year/period end serve as an indicator of the current status of the payment/performance risk and represent the likelihood or risk of default for the credit derivative. The implied credit spread of a particular referenced entity reflects the cost of buying/selling protection and may include upfront payments required to be made to enter into the agreement. Wider credit spreads represent a deterioration of the referenced entity s credit soundness and a greater likelihood or risk of default or other credit event occurring as defined under the terms of the agreement.

(3) This represents the maximum potential amount the Fund could be required to make available as a seller of credit protection or receive as a buyer of credit protection if a credit event occurs as defined under the terms of that particular swap agreement.

(4) The quoted market prices and resulting values for credit default swap agreements serve as an indicator of the status at June 30, 2014 of the payment/performance risk and represent the likelihood of an expected liability (or profit) for the credit derivative should the notional amount of the swap agreement have been closed/sold as of the period end. Increasing market values, in absolute terms when compared to the notional amount of the swap, represent a deterioration of the referenced entity s credit soundness and a greater likelihood or risk of default or other credit event occurring as defined under the terms of the agreement.

(o) Interest rate swap agreements outstanding at June 30, 2014:

OTC swap agreements:

Swap Counterparty	Notional Amount (000s)	Termination Date	Rate Type: Payments Made	Rate Type: Payments Received	Value	Upfront Premiums Paid (Received)	Unrealized Appreciation
Bank of America	$404,700	7/15/19	3-Month USD-LIBOR	2.10%	$1,913,426	$239,096	$1,674,330
Morgan Stanley	1,000,000	8/20/19	3-Month USD-LIBOR	1.90%	2,042,569	(296,428)	2,338,997
Morgan Stanley	MXN560,000	4/5/34	3-Month USD-LIBOR	7.58%	3,219,536	(8,991)	3,228,527
Nomura Global Financial Products	$404,500	7/15/19	3-Month USD-LIBOR	2.10%	1,912,481	353,621	1,558,860
					$9,088,012	$287,298	$8,800,714

Centrally cleared swap agreements:

Broker (Exchange)	Notional Amount (000s)	Termination Date	Rate Type Payments Made	Rate Type Payments Received	Value	Unrealized Appreciation (Depreciation)
Goldman Sachs (CME)	$700,000	9/17/43	3.75%	3-Month USD-LIBOR	$(56,144,949)	$(14,304,876)
Goldman Sachs (CME)	700,000	6/19/44	3-Month USD-LIBOR	3.50%	27,449,168	38,110,960
					$(28,695,781)	$23,806,084

(p) Forward foreign currency contracts outstanding at June 30, 2014:

	Counterparty	U.S.$ Value on Origination Date	U.S.$ Value June 30, 2014	Unrealized Appreciation (Depreciation)
Purchased:				
224,750 Brazilian Real settling 7/2/14	Bank of America	$100,000	$101,720	$1,720
449,350 Brazilian Real settling 7/2/14	BNP Paribas	200,000	203,372	3,372
584,270 Brazilian Real settling 7/2/14	BNP Paribas	265,275	264,435	(840)
1,033,620 Brazilian Real settling 8/4/14	BNP Paribas	460,348	463,434	3,086
1,801,672 Brazilian Real settling 7/2/14	JPMorgan Chase	804,857	815,421	10,564
359,520 Brazilian Real settling 7/2/14	UBS	160,001	162,716	2,715
1,442,152 Brazilian Real settling 7/2/14	UBS	654,779	652,705	(2,074)
8,796,000 British Pound settling 7/2/14	Bank of America	14,930,630	15,053,473	122,843
747,000 British Pound settling 7/2/14	JPMorgan Chase	1,253,694	1,278,416	24,722
3,190,000 Euro settling 7/2/14	Bank of America	4,334,345	4,368,068	33,723
3,070,000 Euro settling 7/2/14	Barclays Bank	4,164,510	4,203,752	39,242
21,476,000 Euro settling 7/2/14	Credit Suisse First Boston	29,285,188	29,407,093	121,905
386,000 Euro settling 7/2/14	Deutsche Bank	523,416	528,550	5,134
771,000 Euro settling 7/2/14	HSBC Bank	1,044,979	1,055,731	10,752
625,000 Euro settling 8/5/14	JPMorgan Chase	849,789	855,922	6,133
971,000 Euro settling 7/2/14	Morgan Stanley	1,322,988	1,329,591	6,603
2,868,000 Euro settling 7/2/14	National Australia Bank Ltd.	3,897,413	3,927,153	29,740
659,722,000 Mexican Peso settling 8/25/14	Citigroup	49,965,691	50,664,076	698,385
Sold:				
224,750 Brazilian Real settling 7/2/14	Bank of America	102,043	101,720	323
1,033,620 Brazilian Real settling 7/2/14	BNP Paribas	464,548	467,807	(3,259)
1,801,672 Brazilian Real settling 7/2/14	JPMorgan Chase	818,013	815,421	2,592
1,801,672 Brazilian Real settling 8/4/14	JPMorgan Chase	797,535	807,798	(10,263)
1,801,672 Brazilian Real settling 7/2/14	UBS	800,317	815,421	(15,104)
8,796,000 British Pound settling 8/5/14	Bank of America	14,926,812	15,049,481	(122,669)
9,543,000 British Pound settling 7/2/14	BNP Paribas	16,068,847	16,331,888	(263,041)
1,300,000 Euro settling 6/15/15	Bank of America	1,767,519	1,783,274	(15,755)
3,073,000 Euro settling 6/13/16	Bank of America	4,202,452	4,245,405	(42,953)
625,000 Euro settling 6/27/16	Bank of America	860,515	863,692	(3,177)
747,000 Euro settling 6/15/15	Barclays Bank	1,014,881	1,024,696	(9,815)
692,000 Euro settling 6/27/16	Barclays Bank	951,535	956,280	(4,745)
594,000 Euro settling 6/15/15	BNP Paribas	805,577	814,819	(9,242)
20,396,000 Euro settling 8/5/14	Credit Suisse First Boston	27,825,854	27,931,821	(105,967)
14,231,000 Euro settling 4/21/15	Credit Suisse First Boston	19,293,664	19,513,016	(219,352)
1,080,000 Euro settling 6/15/15	Credit Suisse First Boston	1,465,860	1,481,489	(15,629)
386,000 Euro settling 6/13/16	Deutsche Bank	528,511	533,266	(4,755)

32,107,000 Euro settling 7/2/14	Goldman Sachs	43,972,334	43,964,124	8,210
625,000 Euro settling 7/2/14	JPMorgan Chase	849,688	855,813	(6,125)
971,000 Euro settling 6/13/16	Morgan Stanley	1,335,465	1,341,454	(5,989)
755,000 Euro settling 6/15/15	National Australia Bank Ltd.	1,026,724	1,035,670	(8,946)
1,067,000 Euro settling 6/13/16	National Australia Bank Ltd.	1,462,110	1,474,080	(11,970)
1,046,000 Euro settling 6/27/16	National Australia Bank Ltd.	1,439,196	1,445,475	(6,279)
				$243,815

(q) At June 30, 2014, the Fund held $17,019,000 in cash as collateral and pledged cash collateral of $955,000 for derivative contracts. Cash collateral held may be invested in accordance with the Fund s investment strategy.

(r) Open reverse repurchase agreements at June 30, 2014:

Counterparty	Rate	Trade Date	Due Date	Principal & Interest	Principal
Barclays Bank	0.40%	6/10/14	7/15/14	$13,500,149	$13,497,000
	0.40	6/25/14	7/25/14	2,721,181	2,721,000
	0.55	6/10/14	7/15/14	21,622,935	21,616,000
	0.55	6/16/14	7/16/14	5,739,315	5,738,000
	0.67	6/12/14	7/14/14	27,757,807	27,748,208
Credit Suisse First Boston	0.69	5/2/14	7/16/14	2,240,927	2,238,357
Deutsche Bank	0.55	6/24/14	7/25/14	9,236,988	9,236,000
	0.55	6/26/14	7/23/14	42,055,212	42,052,000
Morgan Stanley	0.45	6/16/14	7/18/14	10,877,039	10,875,000
	0.45	6/25/14	7/25/14	5,373,403	5,373,000
	0.48	5/30/14	7/1/14	9,583,087	9,579,000
	0.48	6/2/14	7/1/14	16,314,306	16,308,000
	0.48	6/23/14	7/23/14	10,385,108	10,384,000
	0.48	6/25/14	7/25/14	7,920,634	7,920,000
	0.48	6/30/14	7/30/14	25,762,000	25,762,000
Royal Bank of Canada	0.50	6/2/14	7/2/14	25,581,299	25,571,000
	0.50	6/9/14	7/11/14	20,112,144	20,106,000
	0.50	6/10/14	7/2/14	17,192,013	17,187,000
	0.50	6/12/14	7/17/14	13,125,463	13,122,000
	0.50	6/13/14	7/16/14	51,175,791	51,163,000
	0.50	6/26/14	7/22/14	20,380,415	20,379,000
	0.50	6/27/14	7/29/14	80,425,468	80,421,000
	0.50	6/30/14	7/29/14	33,008,282	33,008,000
	0.50	6/30/14	7/30/14	42,444,000	42,444,000
UBS	0.38	6/20/14	7/7/14	27,007,135	27,004,000
	0.45	6/2/14	7/2/14	9,452,425	9,449,000
	0.45	6/18/14	7/23/14	13,459,187	13,457,000
	0.45	6/26/14	7/25/14	12,808,801	12,808,000
	0.45	6/30/14	7/30/14	9,088,000	9,088,000
					$586,254,565

(s) The weighted average daily balance of reverse repurchase agreements during the three months ended June 30, 2014 was $380,118,587, at a weighted average interest rate of 0.46%. Total value of underlying collateral (refer to the Schedule of Investments for positions transferred for the benefit of the counterparty as collateral) for open reverse repurchase agreements at June 30, 2014 was $676,383,547.

At June 30, 2014, the Fund held $744,453, in principal value of U.S. Treasury Obligations and $2,866,340 in Corporate Bonds and $120,000 in cash as collateral for open reverse repurchase agreements. Cash collateral held may be invested in accordance with the Fund s investment strategy. Securities held as collateral will not be pledged and are not reflected in the Schedule of Investments.

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (*i.e.* the exit price) in an orderly transaction between market participants. The three levels of the fair value hierarchy are described below:

- Level 1 quoted prices in active markets for identical investments that the Fund has the ability to access
- Level 2 valuations based on other significant observable inputs, which may include, but are not limited to, quoted prices for similar assets or liabilities, interest rates, yield curves, volatilities, prepayment speeds, loss severities, credit risks and default rates or other market corroborated inputs
- Level 3 valuations based on significant unobservable inputs (including the Sub-Adviser s or Valuation Committee s own assumptions and securities whose price was determined by using a single broker s quote)

The valuation techniques used by the Fund to measure fair value during the three months ended June 30, 2014 were intended to maximize the use of observable inputs and to minimize the use of unobservable inputs.

The Fund s policy is to recognize transfers between levels at the end of the reporting period. An investment asset s or liability s level within the fair value hierarchy is based on the lowest level input, individually or in aggregate, that is significant to the fair value measurement. The objective of fair value measurement remains the same even when there is a significant decrease in the volume and level of activity for an asset or liability and regardless of the valuation techniques used. Investments categorized as Level 1 or 2 as of period end may have been transferred between Levels 1 and 2 since the prior period due to changes in the valuation method utilized in valuing the investments.

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. The following are certain inputs and techniques that the Fund generally uses to evaluate how to classify each major category of assets and liabilities within Level 2 and Level 3, in accordance with U.S. Generally Accepted Accounting Principles.

Equity Securities (Common and Preferred Stock) Equity securities traded in inactive markets are valued using inputs which include broker-dealer quotes, recently executed transactions adjusted for changes in the benchmark index, or evaluated price quotes received from independent pricing services that take into account the integrity of the market sector and issuer, the individual characteristics of the security, and information received from broker-dealers and other market sources pertaining to the issuer or security. To the extent that these inputs are observable, the values of equity securities are categorized as Level 2. To the extent that these inputs are unobservable, the values are categorized as Level 3.

U.S. Treasury Obligations U.S. Treasury obligations are valued by independent pricing services based on pricing models that evaluate the mean between the most recently quoted bid and ask price. The models also take into consideration data received from active market makers and broker-dealers, yield curves, and the spread over comparable U.S. Treasury issues. The spreads change daily in response to market conditions and are generally obtained from the new issue market and broker-dealer sources. To the extent that these inputs are observable, the values of U.S. Treasury obligations are categorized as Level 2. To the extent that these inputs are unobservable, the values are categorized as Level 3.

Government Sponsored Enterprise and Mortgage-Backed Securities Government sponsored enterprise and mortgage-backed securities are valued by independent pricing services using pricing models based on inputs that include issuer type, coupon, cash flows, mortgage prepayment projection tables and Adjustable Rate Mortgage evaluations that incorporate index data, periodic and life caps and the next coupon reset date. To the extent that these inputs are observable, the values of government sponsored enterprise and mortgage-backed securities are categorized as Level 2. To the extent that these inputs are unobservable, the values are categorized as Level 3.

Municipal Bonds Municipal bonds are valued by independent pricing services based on pricing models that take into account, among other factors, information received from market makers and broker-dealers, current trades, bid-want lists, offerings, market movements, the callability of the bond, state of issuance, benchmark yield curves, and bond insurance. To the extent that these inputs are observable, the values of municipal bonds are categorized as Level 2. To the extent that these inputs are unobservable, the values are categorized as Level 3.

Corporate Bonds & Notes Corporate bonds & notes are generally comprised of two main categories: investment grade bonds and high yield bonds. Investment grade bonds are valued by independent pricing services using various inputs and

techniques, which include broker-dealer quotations, live trading levels, recently executed transactions in securities of the issuer or comparable issuers, and option adjusted spread models that include base curve and spread curve inputs. Adjustments to individual bonds can be applied to recognize trading differences compared to other bonds issued by the same issuer. High yield bonds are valued by independent pricing services based primarily on broker-dealer quotations from relevant market makers and recently executed transactions in securities of the issuer or comparable issuers. The broker-dealer quotations received are supported by credit analysis of the issuer that takes into consideration credit quality assessments, daily trading activity, listed bonds and sector-specific trends. To the extent that these inputs are observable, the values of corporate bonds & notes are categorized as Level 2. To the extent that these inputs are unobservable, the values are categorized as Level 3.

Asset-Backed Securities and Collateralized Mortgage Obligations Asset-backed securities and collateralized mortgage obligations are valued by independent pricing services using pricing models based on a security s average life volatility. The models also take into account tranche characteristics such as coupon, average life, collateral types, ratings, the issuer and tranche type, underlying collateral and performance of the collateral, and discount margin for certain floating rate issues. To the extent that these inputs are observable, the values of asset-backed securities and collateralized mortgage obligations are categorized as Level 2. To the extent that these inputs are unobservable, the values are categorized as Level 3.

Forward Foreign Currency Contracts Forward foreign currency contracts are valued by independent pricing services using various inputs and techniques, which include broker-dealer quotations, actual trading information and foreign currency exchange rates gathered from leading market makers and foreign currency exchange trading centers throughout the world. To the extent that these inputs are observable, the values of forward foreign currency contracts are categorized as Level 2. To the extent that these inputs are unobservable, the values are categorized as Level 3.

Credit Default Swaps Credit default swaps traded over-the-counter (OTC) are valued by independent pricing services using pricing models that take into account, among other factors, information received from market makers and broker-dealers, default probabilities from index specific credit spread curves, recovery rates, and cash flows. To the extent that these inputs are observable, the values of credit default swaps are categorized as Level 2. To the extent that these inputs are unobservable, the values are categorized as Level 3.

Interest Rate Swaps OTC interest rate swaps are valued by independent pricing services using pricing models that are based on real-time intraday snapshots of relevant interest rate curves that are built using the most actively traded securities for a given maturity. The pricing models also incorporate cash and money market rates. In addition, market data pertaining to interest rate swaps is monitored regularly to ensure that interest rates are properly depicting the current market rate. Centrally cleared interest rate swaps are valued at the price determined by the relevant exchange. To the extent that these inputs are observable, the values of interest rate swaps are categorized as Level 2. To the extent that these inputs are unobservable, the values are categorized as Level 3.

A summary of the inputs used at June 30, 2014 in valuing the Fund s assets and liabilities is listed below (refer to the Schedule of Investments and Notes to Schedule of Investments for more detailed information on Investments in Securities and Other Financial Instruments):

	Level 1 - Quoted Prices	Level 2 - Other Significant Observable Inputs	Level 3 - Significant Unobservable Inputs	Value at 6/30/14
Investments in Securities - Assets				
U.S. Government Agency Securities	$	$816,082,997	$11,911,376	$827,994,373
Corporate Bonds & Notes:				
Airlines			39,295	39,295

Diversified Financial Services		78,535,403	26,812,140	105,347,543
Electric Utilities			4,557,737	4,557,737
Home Builders			18,639,370	18,639,370
Real Estate		4,201,721	3,907,802	8,109,523
All Other		264,094,135		264,094,135
Municipal Bonds		318,128,007		318,128,007
Mortgage-Backed Securities		234,227,691		234,227,691
Asset-Backed Securities		43,298,428		43,298,428
Preferred Stock:				
Banking	12,421,500			12,421,500
Diversified Financial Services		18,686,938		18,686,938
Short-Term Investments		10,659,989		10,659,989
	12,421,500	1,787,915,309	65,867,720	1,866,204,529
Other Financial Instruments* - Assets				
Credit Contracts		765,457		765,457
Foreign Exchange Contracts		1,131,764		1,131,764
Interest Rate Contracts		46,911,674		46,911,674
		48,808,895		48,808,895
Other Financial Instruments* - Liabilities				
Foreign Exchange Contracts		(887,949)		(887,949)
Interest Rate Contracts		(14,304,876)		(14,304,876)
		(15,192,825)		(15,192,825)
Totals	$12,421,500	$1,821,531,379	$65,867,720	$1,899,820,599

At June 30, 2014, there were no transfers between Levels 1 and 2.

A roll forward of fair value measurements using significant unobservable inputs (Level 3) for the three months ended June 30, 2014, was as follows:

	Beginning Balance 3/31/14	Purchases	Sales	Accrued Discount (Premiums)	Net Realized Gain (Loss)	Net Change in Unrealized Appreciation/ Depreciation	Transfers into Level 3**	Transfers out of Level 3***	Ending Balance 6/30/14
Investments in Securities - Assets									
U.S. Government Agency Securities	$11,235,566	$11,757,492	$(1,178,390)	$(146)	$(14,725)	$139,778	$	$(10,028,199)	$11,911,376
Corporate Bonds & Notes:									
Airlines	4,955,491	19,105	(1,744,422)			(3,190,879)			39,295
Diversified Financial Services	26,733,737		(41,092)	174,235	478	(55,218)			26,812,140
Electric Utilities	338,626			(524)		17,370	4,202,265		4,557,737
Home Builders	17,846,177		(100,000)	3,204	15,591	874,398			18,639,370
Real Estate	3,707,127			1,045		199,630			3,907,802
Totals	$64,816,724	$11,776,597	$(3,063,904)	$177,814	$1,344	$(2,014,921)	$4,202,265	$(10,028,199)	$65,867,720

The following table presents additional information about valuation techniques and inputs used for investments that are measured at fair value and categorized within Level 3 at June 30, 2014:

	Ending Balance at 6/30/14	Valuation Technique Used	Unobservable Inputs	Input Values
Investments in Securities - Assets				
U.S. Government Agency Securities	$11,911,376	Benchmark Pricing	Security Price Reset	$105.80 - $106.82
Corporate Bonds & Notes	40,576,729	Benchmark Pricing	Security Price Reset	$78.22 - $100.16
	13,340,320	Third-Party Pricing Vendor	Single Broker Quote	$103.79 - $109.99
	39,295	Analytical Model	Estimated Recovery Value	$1.00

Reduction of cost due to corporate action.

* Other financial instruments are derivatives, such as swap agreements and forward foreign currency contracts, which are valued at the unrealized appreciation (depreciation) of the instrument.

** Transferred out of Level 2 into Level 3 because an evaluated price with observable inputs from a third-party pricing vendor was not available.

*** Transferred out of Level 3 into Level 2 because an evaluated price with observable inputs from a third-party pricing vendor became available.

The net change in unrealized appreciation/depreciation of Level 3 investments held at June 30, 2014 was $(3,664,861).

Glossary:

AGM - insured by Assured Guaranty Municipal Corp.

£ - British Pound

CIFG - insured by CDC IXIS Financial Guaranty Services, Inc.

CME - Chicago Mercantile Exchange

CMO - Collateralized Mortgage Obligation

CP - Certificates of Participation

- Euro

FGIC - insured by Financial Guaranty Insurance Co.

FRN - Floating Rate Note

GO - General Obligation Bond

IO - Interest Only

LIBOR - London Inter-Bank Offered Rate

MXN - Mexican Peso

NPFGC - insured by National Public Finance Guarantee Corp.

OTC - Over-the-Counter

Item 2. Controls and Procedures

(a) The registrant s President & Chief Executive Officer and Treasurer, Principal Financial & Accounting Officer have concluded that the registrant s disclosure controls and procedures (as defined in Rule 30a-3(c) under the Act (17 CFR 270.30a-3(c))), are effective based on their evaluation of these controls and procedures as of a date within 90 days of the filing date of this document.

(b) There were no significant changes in the registrant s internal control over financial reporting (as defined in Rule 30a-3(d) under the Act (17 CFR 270.30a-3(d))) that occurred during the registrant s last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant s internal control over financial reporting.

Item 3. Exhibits

(a) Exhibit 99.302 Cert. Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Registrant: PIMCO High Income Fund

By: /s/ Julian Sluyters
Julian Sluyters,
President & Chief Executive Officer

Date: August 22, 2014

By: /s/ Lawrence G. Altadonna
Lawrence G. Altadonna,
Treasurer, Principal Financial & Accounting Officer

Date: August 22, 2014

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ Julian Sluyters
Julian Sluyters,
President & Chief Executive Officer

Date: August 22, 2014

By: /s/ Lawrence G. Altadonna
Lawrence G. Altadonna,
Treasurer, Principal Financial & Accounting Officer

Date: August 22, 2014

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nt-size:1pt;font-weight:bold;">

Nine months ended
September 30,

2014

2013

$ Change

% Change

2014

2013

$ Change

% Change
Revenue, net

Direct

$
33,592

$
35,681

$
(2,089
)

(5.9
)%

$
104,854

$
113,873

$
(9,019
)

(7.9
)%
Fulfillment partner

319,399

265,745

53,654

20.2

921,889

792,751

129,138

16.3

Total net revenues

$

352,991

$
301,426

$
51,565

17.1
%

$
1,026,743

$
906,624

$
120,119

13.2
%
Cost of goods sold

Direct

$
29,385

$
30,777

$
(1,392
)

(4.5
)%

$
91,955

$
99,768

$
(7,813
)

(7.8
)%
Fulfillment partner

256,548

211,499

45,049

21.3

741,109

630,931

110,178

17.5

Total cost of goods sold

$
285,933

$
242,276

$
43,657

18.0
%

$
833,064

$
730,699

$
102,365

14.0
%
Gross Profit

Direct

$
4,207

$
4,904

$
(697
)

(14.2
)%

$
12,899

$
14,105

$
(1,206
)

(8.6
)%
Fulfillment partner

62,851

54,246

8,605

15.9

180,780

161,820

18,960

11.7

Total gross profit

$
67,058

$
59,150

$
7,908

13.4
%

$
193,679

$
175,925

$
17,754

10.1
%

Gross margins for the past seven quarterly periods and fiscal year ending 2013 were:

	Q1 2013	Q2 2013	Q3 2013	Q4 2013	FY 2013	Q1 2014	Q2 2014	Q3 2014
Direct	11.4 %	12.2 %	13.7 %	13.4 %	12.7 %	13.0 %	11.3 %	12.5 %
Fulfillment Partner	20.0 %	20.8 %	20.4 %	18.6 %	19.8 %	19.5 %	19.7 %	19.7 %
Combined	18.9 %	19.7 %	19.6 %	18.0 %	19.0 %	18.8 %	18.8 %	19.0 %

The 122 basis point decrease in direct gross margin for the three months ended September 30, 2014, as compared to the same period in 2013, was primarily due to increased promotional activities which we recognize as a reduction of revenue (including coupons, site sales, and our Club O Rewards program) due to driving a higher proportion of our sales using those channels, and increased returns costs. These factors were partially offset by a continued shift in sales mix into higher margin home and garden products.

The 9 basis point decrease in direct gross margin for the nine months ended September 30, 2014, as compared to the same period in 2013, was primarily due to increased promotional activities (including coupons, site sales, and our Club O Rewards program), and increased returns costs. These increases were partially offset by a continued shift in sales mix into higher margin home and garden products.

The 74 and 80 basis point decreases in fulfillment partner gross margin for the three and nine months ended September 30, 2014, as compared to the same periods in 2013, respectively, were primarily due to increased promotional activities (including coupons, site sales, and our Club O Rewards program). The decrease for the three months ended September 30, 2014 was partially offset by a continued shift in sales mix into higher margin home and garden products.

Cost of goods sold includes stock-based compensation expense of $45,000 and $37,000 for the three months ended September 30, 2014 and 2013, respectively and $130,000 and $117,000 for the nine months ended September 30, 2014 and 2013, respectively.

See “Executive Commentary” above for additional discussion.

Table of Contents

Fulfillment costs

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 September 30,				Nine months ended September 30,			
	2014		2013		2014		2013	
Total revenue, net	$352,991	100%	$301,426	100%	$1,026,743	100%	$906,624	100%
Cost of goods sold								
Product costs and other cost of goods sold	270,219	77%	228,963	76%	786,981	77%	690,563	76%
Fulfillment and related costs	15,714	4%	13,313	4%	46,083	4%	40,136	4%
Total cost of goods sold	285,933	81%	242,276	80%	833,064	81%	730,699	81%
Gross profit	$67,058	19%	$59,150	20%	$193,679	19%	$175,925	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 as a percentage of revenue remained relatively flat during the three and nine months ended September 30, 2014 as compared to the same periods in 2013.

See “Gross profit” above for additional discussion.

Operating expenses

Sales and marketing expenses

We advertise through a number of targeted online marketing channels, such as sponsored search, affiliate marketing, portal advertising, e-mail campaigns, and other initiatives. We also use nationwide television, print and radio advertising campaigns to promote sales.

The following table reflects our sales and marketing expenses for the three and nine months ended September 30, 2014 and 2013 (in thousands):

	Three months ended September 30,				Nine months ended September 30,			
	2014	2013	$ Change	% Change	2014	2013	$ Change	% Change
Sales and marketing expenses	$25,428	$22,463	$2,965	13.2 %	$72,363	$60,376	$11,987	19.9 %
Sales and marketing expenses as a percent of net revenues	7.2 %	7.5 %			7.0 %	6.7 %		

The 25 basis point decrease in sales are marketing expenses as a percentage of revenue for the three months ended September 30, 2014, as compared to the same period in 2013, was primarily due to decreased spending in the sponsored search and offline advertising marketing channels as a percentage of revenue due to driving a smaller proportion of our revenue using those channels.

Table of Contents

The 39 basis point increase in sales are marketing expenses as a percentage of revenue for the nine months ended September 30, 2014, as compared to the same period in 2013, was primarily due to increased spending in the sponsored search, display ad, email and affiliate marketing channels due to driving a higher proportion of our revenue through those channels.

Sales and marketing expenses include stock-based compensation expense of $77,000 and $44,000 for the three months ended September 30, 2014 and 2013, respectively and $255,000 and $123,000 for the nine months ended September 30, 2014 and 2013, respectively.

Costs associated with our discounted shipping and other promotions, such as coupons, site sales, and Club O Rewards, are not included in marketing expense. Rather, they are accounted for as a reduction of revenue and therefore affect revenues and gross margin. We consider discounted shipping and other promotions, such as our policy of free shipping on orders over $50 introduced in January 2013, as an effective marketing tool, and intend to continue to offer them as we deem appropriate as part of our overall marketing plan.

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 our logistics infrastructure. We continue to seek opportunities for growth in our business, including expanding our international sales and our distribution capabilities and multi-channel fulfillment services. We have also begun to broker insurance products, and offer consumer financing products through a third party, to our customers. We are also working to develop financial service software that utilizes the bitcoin network and its protocols, subject to the resolution of technical, legal, and regulatory constraints. As a result of these and other initiatives, we expect to continue to increase our technology expenses, and these expenses may be material.

We have noted a recent increase in the frequency and variety of cyber attacks on our website. The impact of these attacks, their costs, and the costs incurred to protect our website against future attacks have not been material. However, we consider the threat from cyber attacks to be serious and will continue to devote resources to protect against these threats.

The following table reflects our technology expenses for the three and nine months ended September 30, 2014 and 2013 (in thousands):

	Three months ended September 30,				Nine months ended September 30,			
	2014	2013	$ Change	% Change	2014	2013	$ Change	% Change
Technology expenses	$22,202	$17,259	$4,943	28.6 %	$63,211	$53,339	$9,872	18.5 %
Technology expenses as a percent of net revenues	6.3 %	5.7 %			6.2 %	5.9 %		

The $4.9 million increase in technology costs for the three months ended September 30, 2014, as compared to the same period in 2013, was primarily due to an increase in staff related costs of $3.0 million and depreciation of $1.4 million.

The $9.9 million increase in technology costs for the nine months ended September 30, 2014, as compared to the same period in 2013, was primarily due to an increase in staff related costs of $5.5 million and depreciation of $2.2 million.

Technology expenses include stock-based compensation expense of $183,000 and $33,000 for the three months ended September 30, 2014 and 2013, respectively and $550,000 and $235,000 for the nine months ended September 30, 2014 and 2013, respectively.

General and administrative expenses

The following table reflects our general and administrative expenses for the three and nine months ended September 30, 2014 and 2013 (in thousands):

	Three months ended September 30,				Nine months ended September 30,			
	2014	2013	$ Change	% Change	2014	2013	$ Change	% Change
General and administrative expenses	$17,073	$15,970	$1,103	6.9 %	$48,250	$47,643	$607	1.3 %
General and administrative expenses as a percent of net revenues	4.8 %	5.3 %			4.7 %	5.3 %		

The $1.1 million increase in general and administrative expenses (“G&A”) for the three months ended September 30, 2014, as compared to the same period in 2013, was primarily due to an increase of $2.4 million in staff and travel related costs, and a $565,000 increase in professional fees, partially offset by a $2.5 million decrease in legal costs.

The $607,000 increase in G&A expenses for the nine months ended September 30, 2014, as compared to the same period in 2013, was primarily due to an increase of $4.5 million in staff and travel related costs, and a $1.1 million increase in professional fees, partially offset by a decrease of $5.8 million in legal costs.

G&A expenses include stock-based compensation expense of approximately $693,000 and $695,000 for the three months ended September 30, 2014 and 2013, respectively, and $2.0 million and $1.9 million for the nine months ended September 30, 2014 and 2013, respectively.

Restructuring

During the three months ended September 30, 2014 and 2013, we had zero lease termination costs. During the nine months ended September 30, 2014 and 2013 we reversed $360,000 and $471,000, respectively, of lease termination costs. These reversals were a result of our reoccupation of formerly restructured facility space. At September 30, 2014 our restructuring liability was zero.

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 September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Cost of goods sold - direct	$61	$87	$217	$292
Technology	4,356	2,937	11,752	9,595
General and administrative	284	283	837	946
Total depreciation and amortization, including internal-use software and website development	$4,701	$3,307	$12,806	$10,833

Non-operating income (expense)

Interest income

Our interest income is primarily derived from the investment of our cash in cash equivalents and short-term investments. Interest income for the three months ended September 30, 2014 and 2013 totaled $36,000 and $34,000, respectively, and $114,000 and $100,000 for the nine months ended September 30, 2014 and 2013, respectively.

Interest expense

Our interest expense is primarily derived from interest incurred on our line of credit and our restructuring accrual. Interest expense for the three months ended September 30, 2014 and 2013 totaled $11,000 and $33,000, respectively, and $30,000 and $121,000 for the nine months ended September 30, 2014 and 2013, respectively. The decreases in interest expense are primarily due to the elimination of the restructuring accrual.

Table of Contents

Other income (expense), net

Other income (expense), net for the three months ended September 30, 2014 was $(350,000) as compared to $165,000 in 2013. The decrease is primarily due to an increase in losses on precious metals of $659,000, partially offset by increased Club O Rewards and gift card breakage of $209,000.

Other income (expense), net for the nine months ended September 30, 2014 was $633,000 as compared to $360,000 in 2013. The increase is primarily due to an increase in gift card and Club O Rewards breakage of $622,000, partially offset by an increase in losses on precious metals of $277,000.

Income taxes

Our provision for income taxes for the three months ended September 30, 2014 and 2013 was $413,000 and $91,000, respectively. Our provision for income taxes for the nine months ended September 30, 2014 and 2013 was $3.4 million and $449,000, respectively. The increase in the 2014 provisions relative to the 2013 provisions is primarily due to a deferred tax asset valuation release in Q4 2013, which significantly reduced the 2013 provisions. The effective tax rate for the three months ended September 30, 2014 was 20.3%. The effective tax rate for the nine months ended September 30, 2014 was 31.4%. The variability in the effective tax rate is attributable to discrete items in the quarter including a change in estimated state research and experimentation credits. We have indefinitely reinvested foreign earnings of $105,000 at September 30, 2014. We would need to accrue and pay U.S. income tax on this amount if repatriated. We do not intend to repatriate these earnings.

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. 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.

The following table reflects our total net revenues for each of the quarters in 2014, 2013 and 2012 (in thousands):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2014	$ 341,207	$ 332,545	$ 352,991	$ N/A
2013	311,994	293,204	301,426	397,593
2012	262,367	239,536	255,352	342,034

Liquidity and Capital Resources

Current sources of liquidity

Subject to our need for additional financing for a portion of the anticipated costs of completing our new corporate headquarters as described below, 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. However, we may require additional financing for the completion and ownership of the new corporate headquarters and related equipment and furniture. Although we are attempting to obtain additional financing, there can be no assurance that we will be able to do so or, that any financing available will be available on satisfactory terms. 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 intended business objectives. Any projections of future cash needs and cash flows are subject to substantial uncertainty.

As we have previously announced, we plan to build a new corporate headquarters in Salt Lake City, Utah. In September 2014 our wholly owned real estate subsidiary purchased the site for the headquarters for approximately $11 million in cash. On October 14, 2014 the subsidiary entered into a Construction Agreement dated October 13, 2014 relating to the construction of the future headquarters. (See “Construction Agreement” below.) We currently estimate the total cost of the headquarters, including the cost of the land and related equipment and furniture, at approximately $96 million.

Table of Contents

On October 24, 2014, we entered into a syndicated senior secured credit facility with U.S. Bank National Association, and other banks which provides for an approximately 27-month construction loan of $45,760,000 (which is designed to subsequently convert into an approximately 6.75-year term loan following completion of the construction of the headquarters), and a three-year $10 million revolving loan facility that may be renewed with the consent of all lenders.

The actual amount of financing to be available under the construction loan facility will be limited by a loan-to-value limit of 80% based on periodic appraisals. The loan agreement requires us to fund a substantial portion of the project costs ($37.4 million) prior to any draws on either the term loan facility or the revolving facility. We have the right to prepay the term loan without penalty at any time.

If the conditions to the conversion of the construction loan into the term loan are not satisfied in early 2017, both the construction loan and the revolver would become due immediately.

The $10 million in financing to be available under the revolving loan facility may be used for working capital, capital expenditures and other corporate purposes, but may not be used for the construction of the headquarters. In order to draw on either the construction loan or the revolving loan we are required to satisfy a number of conditions set forth in the loan agreement. We do not expect to satisfy all of the conditions necessary for draws on the construction loan prior to approximately September 1, 2015. See “U.S. Bank Term Loan and Revolving Loan Agreement” below.

We are currently in discussions regarding additional financing for equipment and furniture for our new corporate headquarters.

Our principal sources of liquidity are cash flows generated from operations, and our existing cash and cash equivalents. At September 30, 2014, our only available credit facility was a $3.0 million facility solely to support letters of credit. At September 30, 2014, we had cash and cash equivalents of $112.7 million.

Cash flow information is as follows (in thousands):

	Nine months ended September 30,		Twelve months ended September 30,	
	2014	2013	2014	2013
Cash provided by (used in):				
Operating activities	$(496)	$13,784	$69,365	$55,266
Investing activities	(32,936)	(19,783)	(39,153)	(23,119)
Financing activities	(2,493)	(2,686)	(2,334)	(19,754)

Free Cash Flow

“Free Cash Flow” (a non-GAAP measure) for the nine months ended September 30, 2014 and 2013, was $(33.0) million and $(186,000), respectively, and $32.7 million and $39.4 million for the twelve months ended September 30, 2014 and 2013, respectively. See “Non-GAAP Financial Measures” below for a reconciliation of Free Cash Flow to net cash provided by (used in) operating activities.

Cash flows from operating activities

For the nine months ended September 30, 2014 and 2013, our operating activities resulted in a net cash outflow of $496,000 and a net cash inflow of $13.8 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 fulfillment 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 and accounts payable 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 balance normally declines 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.

36

Table of Contents

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 $496,000 of net cash used by operating activities during the nine months ended September 30, 2014 was due to decreases in accounts payable of $27.5 million and accrued liabilities of $3.2 million, and increase in prepaids and other assets of $3.5 million. Accounts payable increased in Q4 2013 due to increased sales and in part due to the timing of key holiday sales. In 2013, the holiday sales season began later than in previous years, and as a result some of our payments to our suppliers for holiday sales were due in January 2014 rather than in December 2013. This caused a significant increase in accounts payable during Q4 2013 and a significant decrease in accounts payable during Q1 2014. Accrued liabilities increased during Q4 2013 due to the timing of some invoices related to marketing expenses and legal matters which were paid in Q1 2014. The net cash used by operating activities during the nine months ended September 30, 2014 was partially offset by non-cash depreciation and amortization expense of $12.8 million, net income of $7.5 million, deferred revenue of $3.3 million, stock-based compensation of $2.9 million and deferred income taxes of $2.9 million.

The $13.8 million of net cash provided by operating activities during the nine months ended September 30, 2013 was primarily from net income of $14.9 million, non-cash depreciation and amortization expense of $10.8 million, a reduction in accounts receivable of $4.6 million and reduction in inventory of $3.7 million, partially offset by a decrease in deferred revenue of $8.6 million, payments of accounts payable of $7.8 million, and a decrease in prepaids of $3.0 million.

Cash flows from investing activities

Cash provided by investing activities primarily corresponds with expenditures for fixed assets, including internal-use software and website development costs, purchases, sales and maturities of marketable securities, and investments in precious metals. For the nine months ended September 30, 2014 investing activities resulted in net cash outflows of $32.9 million and resulting primarily from expenditures for fixed assets. Included in cash outflows for expenditures of fixed assets during the nine months ended September 30, 2014 is our purchase of land for approximately $11.0 million in connection with the construction of our new corporate headquarters.

For the nine months ended September 30, 2013, investing activities resulted in net cash outflows of $19.8 million, resulting primarily from expenditures for fixed assets of $14.0 million and investments in precious metals of $6.0 million.

Cash flows from financing activities

For the nine months ended September 30, 2014 and 2013, financing activities resulted in net cash outflows of $2.5 million and $2.7 million, respectively.

The $2.5 million used in financing activities during the nine months ended September 30, 2014 resulted primarily from $2.3 million for the purchase of shares of our common stock withheld for minimum tax withholdings upon the vesting of a portion of certain restricted stock award grants.

The $2.7 million used in financing activities during the nine months ended September 30, 2013 resulted primarily from $2.6 million for prepayment of capital leases for computer equipment and $1.4 million for the purchase of shares of our common stock withheld for minimum tax withholdings upon the vesting of a portion of certain restricted stock award grants, partially offset by $1.5 million in proceeds for the exercise of stock options.

37

Table of Contents

Contractual Obligations and Commitments

The following table summarizes our contractual obligations as of September 30, 2014 and the effect such obligations and commitments are expected to have on our liquidity and cash flow in future periods. Also included in this table are our obligations in connection with our recently announced corporate headquarters, some of which were incurred subsequent to September 30, 2014 (in thousands):

	Payments Due by Period						
Contractual Obligations	Remainder of 2014	2015	2016	2017	2018	Thereafter	Total
Operating leases	$2,677	$10,714	$8,483	$4,224	$3,826	$32,437	$62,361
Naming rights	1,311	1,351	1,391	—	—	—	4,053
Purchase obligations	14,949	511	—	—	—	—	15,460
Marketing, technology and other services	119	3,042	1,683	—	—	—	4,844
Headquarters construction costs	4,167	47,090	32,961	208	—	—	84,426
U.S. Bank term loan payments	—	186	1,800	2,955	3,177	52,648	60,766
Total contractual cash obligations	$23,223	$62,894	$46,318	$7,387	$7,003	$85,085	$231,910

	Amounts of Commitment Expiration Per Period						
Other Commercial Commitments	2014	2015	2016	2017	2018	Thereafter	Total
Letters of credit	$1,580	$—	$—	$—	$—	$—	$1,580

Operating Leases

From time to time we enter into operating leases for facilities and equipment for use in our operations. On March 6, 2014, we entered into amendments to extend the leases on our corporate headquarters and a data center space from their previous expiration of June 30, 2016 to January 31, 2017. The minimum future payments due under these amended operating leases are included in the table above.

Naming Rights

During 2011, we entered into a six-year agreement with the Oakland-Alameda County Coliseum Authority (“OACCA”) for the right to name Oakland Alameda County Coliseum (now known as “O.co Coliseum”). Amounts represent annual payments due OACCA for the naming rights. We have the right to terminate this agreement at our sole option, subject to payment of a termination fee.

Purchase Obligations

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 September 30, 2014. 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.

Marketing, Technology and Other Services

From time to time we enter into long-term contractual agreements for marketing, technology, or other services.

Headquarters Construction Costs

We have entered into various agreements under which we have incurred obligations relating to our plans to build our corporate headquarters in Salt Lake City, Utah. We expect the total project costs to be approximately $96 million. Under the financing agreement described below we are required to fund the first $37.4 million of project costs before we can draw on the

38

Table of Contents

loan ($11 million of which we have already funded with cash on hand for our purchase of land). Our obligations include payments to become due under the Construction Agreement described below, project management and consulting agreements to assist us with design of the project and to manage the engineering and construction of the headquarters and campus, agreements with various firms for engineering and architectural services, anticipated expenditures for fixed assets, and various other anticipated obligations related to this project. These costs are based on our current project cost estimates, however the costs we actually incur, the amounts we actually pay and the timing of the actual payments could vary significantly from these estimates.

U.S. Bank Term Loan Payments

We have entered into a financing agreement related to this project (see "Borrowings" below). The amounts presented reflect our estimated payments of principal and interest based on our anticipated draws on the loan. The timing and amount of our draws on the loan could vary significantly from these estimates. Further, $45,760,000 of the amounts shown in the row titled "U.S. Bank term loan payments" are simply the repayment of the financing of $45,760,000 of costs shown in the row titled "Headquarters construction costs." Virtually all of these repayments are scheduled to occur after 2018.

Construction Agreement

We estimate the total cost of building our corporate headquarters, including the land and related equipment and furniture, at approximately $96 million over approximately the next 27 months. On October 14, 2014 our wholly owned subsidiary O.com Land entered into a construction agreement dated October 13, 2014 (the “Construction Agreement”) with Okland Construction Company Inc. (“Contractor”) regarding preconstruction and construction services to be provided by Contractor in connection with the construction of an approximately 225,000 square foot building in Salt Lake City, Utah, to serve as our corporate headquarters, together with related facilities and improvements (collectively, the “Project”). As previously announced, the Project is to be built on land O.Com Land has recently purchased for approximately $11 million.

In accordance with the Project Milestones as described in the Construction Agreement, Contractor is required to Substantially Complete the Work (as such term is defined in the Construction Agreement) within 100 weeks following the commencement of the Construction Phase (as defined in the Construction Agreement) subject to modification under certain circumstances. Pursuant to the Construction Agreement, O.Com Land agreed to make progress payments to Contractor for construction services as set forth in the Construction Agreement, and subject to a 5% retention on progress payments for the Work.

Tax Contingencies

As of September 30, 2014 and December 31, 2013, tax contingencies were $662,000 and $495,000, respectively. We expect the total amount of tax contingencies to grow in the future. In addition, changes in state, federal, and foreign tax laws may increase our tax contingencies. The timing of the resolution of income 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 accrued. It is reasonably possible that within the next 12 months we will receive additional assessments by various tax authorities or possibly reach resolution of income tax examinations in one or more jurisdictions. 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

On October 24, 2014, we entered into a syndicated senior secured credit facility (the "Facility") with U.S. Bank National Association and certain other banks. The Facility is governed by a Loan Agreement dated as of October 24, 2014 and collateral and other agreements. The Loan Agreement provides for an aggregate credit amount of $55,760,000, consisting of (i) a senior secured real estate loan of $45,760,000 (the "Real Estate Loan") to be used to finance the development and construction of the Project described above, and (ii) a three-year $10,000,000 senior secured revolving credit facility (the "Revolving Loan") for working capital and capital expenditures. We must satisfy a number of conditions prior to any funding under the Facility, including making equity contributions of approximately $37.4 million toward the Project. The Real Estate 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.

Table of Contents

The Real Estate Loan is intended initially to provide financing for the construction of the Project. On or about January 1, 2017, upon completion of the Project, the Real Estate Loan is designed to convert into an approximately 6.75-year term loan due October 1, 2023 (the “Term Loan”). If the conditions to conversion are not satisfied in early 2017, all amounts outstanding under the facility will become immediately due and payable.

Amounts outstanding under the Real Estate Loan and the Term Loan will carry an interest rate based on LIBOR plus 2.00% or an Alternate Base Rate plus 1.00%. However, we have entered into interest rate swap agreements with U.S. Bank and Compass Bank designed to fix our interest rate on the Real Estate Loan and the Term Loan at approximately 4.6% annually. Monthly payments of interest only will be due and payable on the Real Estate Loan prior to conversion, after which monthly payments of principal in the amount of $1.1 million annually plus interest will be due and payable, with a balloon payment of all then unpaid principal (estimated to be $38 million), interest and other amounts due and payable on the Term Loan due 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%.

We will be required to maintain compliance as of the end of each calendar quarter beginning with the quarter ending December 31, 2014 with the following financial covenants:

1. a fixed charge coverage ratio on a trailing 12-month basis of no less than 1.15 to 1.00;
2. a cash flow leverage ratio on a trailing 12-month basis not greater than 3.00 to 1.00 during the Construction Phase (as defined in the Loan Agreement);
3. a cash flow leverage ratio not greater than 2.50 to 1.00 following the Construction Phase, and
4. minimum liquidity of at least $50,000,000.

In addition to the financial covenants described above, we are required to comply with a number of covenants relating to the Project and our business, including covenants regarding certain indebtedness. The Loan Agreement includes customary events of default in addition to events of default relating specifically to the Project.

As of October 28, 2014 no amounts had been borrowed under the Loan Agreement.

U.S. Bank Credit Agreement

We are party to a $3.0 million cash-collateralized line of credit agreement (the “Credit Agreement”) with U.S. Bank National Association (“U.S. Bank”) for the issuance of letters of credit. Advances under the Credit Agreement bear interest at one-month LIBOR plus 1.0%. The Credit Agreement matures on December 31, 2014. Amounts outstanding under the Credit Agreement were $0 at September 30, 2014 and December 31, 2013.

As of September 30, 2014 and December 31, 2013, letters of credit totaling $1.6 million 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 September 30, 2014, $471,000 was outstanding and $4.5 million was available under the Purchasing Card. At December 31, 2013, $517,000 was outstanding and $4.5 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

Table of Contents

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, 2013, 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. There have been no material changes to the critical accounting policies previously disclosed in that report.

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 to “Gross profit” in our consolidated statements of income and comprehensive income) consists of gross profit less sales and marketing expense and reflects an additional way of viewing our results. Contribution Margin is Contribution as a percentage of revenues. When viewed together with our GAAP results, 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. 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. You should review our financial statements and publicly-filed reports in their entirety and not rely on any single financial measure. 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 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.

For further details on Contribution and Contribution Margin, see the calculation of these non-GAAP financial measures below (in thousands):

	Three months ended September 30,				Nine months ended September 30,			
	2014		2013		2014		2013	
Total net revenue	$352,991	100%	$301,426	100%	$1,026,743	100%	$906,624	100%
Cost of goods sold	285,933	81.0	242,276	80.4	833,064	81.1	730,699	80.6
Gross profit	67,058	19.0	59,150	19.6	193,679	18.9	175,925	19.4
Less: Sales and marketing expense	25,428	7.2	22,463	7.5	72,363	7.0	60,376	6.7
Contribution and contribution margin	$41,630	11.8%	$36,687	12.2%	$121,316	11.8%	$115,549	12.7%

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 to “Net cash provided by (used in) operating activities”, is cash flows from operations reduced by “Expenditures for fixed assets, including internal-use software and website development.” We believe that cash flows from 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 we have paid all of our operating expenses. Therefore, we believe it is important to view free cash flow as a complement to our entire consolidated statements of cash flows as calculated below (in thousands):

Table of Contents

	Nine months ended September 30,		Twelve months ended September 30,	
	2014	2013	2014	2013
Net cash provided by (used in) operating activities	$(496)	$13,784	$69,365	$55,266
Expenditures for fixed assets, including internal-use software and website development	(32,544)	(13,970)	(36,641)	(15,896)
Free cash flow	$(33,040)	$(186)	$32,724	$39,370

Government Regulation

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 impose additional compliance burdens on online companies. These consumer protection laws could result in substantial compliance costs.

New disclosure and reporting requirements, established under existing or new state or federal laws, such as rules regarding the disclosure of abusive labor practices in portions of our supply chain, could increase the cost of doing business, adversely affecting our results of operations.

In many states, there is currently great uncertainty whether or how existing laws governing issues such as property ownership, sales and other taxes, libel and personal privacy apply to the Internet and commercial online services. In addition, 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 regulation, 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 our cash flows and results of operations. 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.

Factors that May Affect Future Results

As described above, subject to our need for additional financing for the completion of our future headquarters, 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. However, we will require additional financing for the completion of the headquarters. Further, 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 sell additional equity or debt securities, obtain credit facilities, or repurchase common stock. Any sale of additional equity or convertible debt securities could be dilutive to our stockholders. In addition, we may, from time to time, consider the acquisition of, or investment in, complementary businesses, products, services, or technologies, any of which might affect our liquidity requirements or cause us to issue additional equity or debt securities. There can be no assurance that financing arrangements will be available in amounts or on terms acceptable to us, if at all.

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 our most recent Annual Report on Form 10-K or herein 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.

Table of Contents

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Other than the Interest Rate Swap described below and elsewhere in this 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, trade accounts and contracts receivable, accounts 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 credit facility described above, we have entered into interest rate swap transactions with U.S. Bank (53% of the combined notional amount) and Compass Bank (47% of the combined notional amount). 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 $3.7 million on September 1, 2015, increasing to a maximum of approximately $45.8 million on October 1, 2016, and decreasing thereafter to approximately $38.2 million on October 1, 2023. The swaps are intended to 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%.

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 September 30, 2014, we had $112.7 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 $1.1 million on our earnings or loss, or the fair market value or cash flows of these instruments.

At September 30, 2014, we had assets consisting of precious metals totaling $8.9 million. Hypothetically, an increase or decrease in the market value of one hundred basis points would have an estimated impact of $89,000 on our earnings or loss, or the recorded value or cash flows 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.

At September 30, 2014, letters of credit totaling $1.6 million were outstanding under our credit facilities. Hypothetically, an increase or decrease in interest rates of one hundred basis points would have an estimated impact of $16,000 on our earnings or loss, or the cash flows of these instruments, if the letters of credit were fully drawn.

At September 30, 2014, we had cryptocurrency denominated assets totaling $346,000. Hypothetically, an increase or decrease in the market value of one hundred basis points would have an estimated impact of $3,460 on our earnings or loss, or the recorded value or cash flows of these instruments. Earnings resulting from increases in the market value of cryptocurrency would be limited to their historical cost.

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 (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 1934 Act, as of the end of the period covered by this report. Based

Table of Contents

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.

Table of Contents

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The information set forth under Item 1 of Part I, "Financial Statements "—Note 5—"Commitments and Contingencies," subheading "Legal Proceedings," 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 harm our business (or similar statements) mean that the event could have a material adverse effect on our business, prospects, financial condition and results of operations, which in turn could have a material adverse effect on the market price of our securities. These are not the only risks we face.

We are an e-commerce business and we depend on the continued use of the Internet and the adequacy of the Internet infrastructure.

Our business depends upon the widespread use of the Internet and e-commerce. Factors which could reduce the widespread use of the Internet for e-commerce include:

- actual or perceived lack of security of information or privacy protection;
- cyber-attacks or other disruptions or damage to the Internet or to users' computers;
- significant increases in the costs of transportation of goods; and
- taxation and governmental regulation.

We depend on our relationships with independent fulfillment partners for a large portion of the products that we offer for sale on our Website. If we fail to maintain these relationships, our business will suffer.

At September 30, 2014, we had relationships with approximately 3,000 independent fulfillment partners whose products we offer for sale on our Website. Sales through our fulfillment partners accounted for approximately 90% of our net revenues for the three and nine months ended September 30, 2014, respectively. If we do not maintain our existing relationships or build new relationships with fulfillment partners on acceptable commercial terms, we may not be able to maintain a broad selection of merchandise, and our business and prospects would suffer severely. Our agreements with fulfillment partners are generally terminable at will by either party upon short notice.

We depend on our fulfillment partners to perform critical services regarding the products that we offer.

In general, we agree to offer the fulfillment partners' products on our Website and these fulfillment partners agree to conduct a number of other traditional retail operations such as maintaining inventory, preparing merchandise for shipment to our customers and delivering purchased merchandise on a timely basis. We have no ability to ensure that these third parties will continue to perform these services to our satisfaction or on terms we consider reasonable. In addition, because we do not take possession of these fulfillment parties' products (other than on the return of such products), we are generally unable to fulfill these traditional retail operations ourselves. If our customers become dissatisfied with the services provided by these third parties, our business and reputation and the Overstock.com brand would suffer.

Risks associated with the suppliers from whom our products are sourced and the safety of those products could adversely affect our financial performance.

Global sourcing of many of the products we sell is an important aspect of our business. We depend on our ability to access products from qualified suppliers in a timely and efficient manner. Our ability to find qualified suppliers who meet our standards and supply products in a timely and efficient manner is a significant challenge, especially with respect to goods sourced from outside the U.S. Political and economic instability, the financial stability of suppliers, suppliers' ability to meet our standards, labor problems experienced by our suppliers, the availability of raw materials, merchandise quality issues, currency exchange rates, transport availability and cost, transport security, inflation, and other factors relating to the suppliers

45

and the countries in which they are located or from which they may source materials or products are beyond our control. We also largely rely on our suppliers' representations of product content and quality. Concerns regarding product content or quality, or the safety of products that we source from our suppliers, could cause shoppers to avoid purchasing certain products from us, or to seek alternative sources of supply for all of their needs, even if the basis for the concern is outside of our control. Any lost confidence on the part of our customers would be difficult and costly to reestablish. As such, any issue regarding the safety of any items we sell, regardless of the cause, could adversely affect our financial performance. Further, if any product we sell were to cause physical injury or injury to property, the injured party or parties might bring claims against us. Any indemnity agreement we may have with the supplier may be inadequate or inapplicable, and any insurance coverage we may carry may not be adequate to cover claims that could be asserted. Even unsuccessful claims could result in the expenditure of funds and management time and could have a negative impact on our business.

Manufacturers may refuse to sell to us or through our site.

We rely upon our fulfillment partners and other suppliers for the product offerings sold on our website and other products and services we use to run our business. Our ability to retain or attract new fulfillment partners and other suppliers may depend in part on our financial performance. Poor financial performance could result in suppliers choosing to limit or suspend doing business with us or require us to prepay for our purchases. Further, some manufacturers are unwilling to offer products for sale on the Internet or on sites like ours. Our inability to source and offer popular products could be a significant problem for us.

Our business depends on our Website, network infrastructure and transaction-processing systems.

As an e-commerce company, we are completely dependent on our infrastructure. Any system interruption that results in the unavailability of our Website or reduced performance of our transaction systems could substantially reduce our ability to conduct our business. If our Website and related systems fail at any time to operate well and quickly enough to satisfy a potential customer, we may quickly lose the opportunity to convert that potential customer into a regular customer. We use internally and externally developed systems for our Website and our transaction processing systems, including personalization databases used for internal analytics, recommendations and order verifications. We have experienced periodic systems interruptions due to server failure and power failure in the past, which we expect will continue to occur from time to time. We have also experienced and may continue to experience temporary capacity constraints due to sharply increased traffic during sales or other promotions and during the holiday shopping season. Capacity constraints can cause system disruptions, slower response times, delayed page presentation, degradation in levels of customer service and other problems. In the past we have also experienced difficulties with our infrastructure upgrades. Any future difficulties with our transaction processing systems or difficulties upgrading, expanding or integrating aspects of our systems may cause system disruptions, slower response times, and degradation in levels of customer service, additional expense, impaired quality and speed of order fulfillment or other problems.

If the facility where substantially all of our computer and communications hardware is located fails, our business, prospects, financial condition and results of operations could be harmed.

If the facility where substantially all of our computer and communications hardware is located fails, or if we suffer an interruption or degradation of services at the facility for any reason, our business could be harmed. Our success, and in particular, our ability to successfully receive and fulfill orders and provide high-quality customer service, largely depends on the efficient and uninterrupted operation of our computer and communications systems. Substantially all of our computer and communications hardware is located at a single co-location facility in Salt Lake City, Utah, with a partially redundant back-up system located less than six miles from the co-location facility. In the event of an earthquake or other local disaster, or any other cause of interruption of service, both our primary and back-up sites could be adversely affected. 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. In the event of a failure of our primary facility, the failover to our back-up facility would take at least several hours, during which time our Website would be completely shut down. Our back-up facility is not adequate to support sales at a high level. The back-up facility may not process effectively during time of higher traffic to our Website and may process transactions more slowly and may not support all of the functionality of our primary site. These limitations could have an adverse effect on our conversion rate and sales. Our disaster recovery plan may be inadequate, and we do not carry business interruption insurance sufficient to compensate us for the losses that could occur. Our servers are vulnerable to computer viruses, physical or electronic break-ins and similar 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. The occurrence of any of the foregoing risks could harm our business.

Table of Contents

We depend upon third party fulfillment and delivery services to fulfill and deliver products to our customers on a timely and consistent basis. Deterioration in our relationship with any one of these third parties could decrease our ability to track shipments, cause shipment delays, and increase our shipping costs and the number of damaged products.

We rely upon third party fulfillment and delivery providers for the shipment of products to customers. We cannot be sure that these relationships will continue on terms we find acceptable, or at all. Increases in shipping or fulfillment costs or delivery times, particularly during the holiday season, could harm our business. If our relationships with these third parties are terminated or impaired or if these third parties are unable to deliver products for us, whether as a result of labor shortage, slow down or stoppage, deteriorating financial or business condition, fulfillment facilities impairment, terrorist attacks, cyber-attacks, Internet or other infrastructure or communications impairment, natural disasters, unexpectedly high shipping volumes or for any other reason, we would be required to use alternative fulfillment service providers or carriers for the shipment of products to our customers, if such alternatives were available. Conditions such as adverse weather or natural disasters can prevent any carrier from performing its delivery services, which can have an adverse effect on our customers' satisfaction with us. In any of these circumstances, we may be unable to engage alternative fulfillment services or carriers on a timely basis, upon terms we find acceptable, or at all. Changing fulfillment services or carriers, or absence of fulfillment services or carrier availability, could have a material adverse effect on our business.

We depend upon our credit card processors and payment card associations.

Our customers primarily use credit cards to buy from us. We are dependent upon our credit card processors to process the sales transactions and remit the proceeds to us. The credit card processors have the right to withhold funds otherwise payable to us to establish or increase a reserve based on their assessment of the inherent risks of credit card processing and their assessment of the risks of processing our customers' credit cards at any time, and have done so from time to time in the past. We are also subject to payment card associations' operating rules, certification requirements and rules governing electronic funds transfers, which could change or be reinterpreted to make it difficult or impossible for us to comply. If we fail to comply with these rules or requirements, we may be subject to fines and higher transaction fees and lose our ability to accept credit and debit card payments from our customers, process electronic funds transfers, or facilitate other types of online payments. In addition, events affecting our credit card processors, including cyber-attacks, Internet or other infrastructure or communications impairment or other events that could interrupt the normal operation of the credit card processors, could have a material adverse effect on our business.

We rely upon paid and natural search engines including Google, Bing, and Yahoo! to rank our product offerings. Our financial results may suffer if search engines change their ranking algorithms and our product offerings are ranked lower, and we may at times be subject to ranking penalties if the operators of search engines believe we are not in compliance with their guidelines.

We rely on paid and natural search engines to attract consumer interest in our product offerings. Potential and existing customers use search engines provided by search engine companies, including, but not limited to, Google, Bing, and Yahoo!, which use algorithms and other devices to provide users a natural ranked listing of relevant Internet sites matching a user's search criteria and specifications. Generally, Internet sites ranked higher in the paid and natural search results attract the largest visitor share among similar Internet sites, and often benefit from increased sales. Natural search engine algorithms use information available throughout the Internet, including information available on our site. Search engine companies change their natural search engine algorithms periodically, and our ranking in natural searches may be adversely affected by those changes. When this occurs, our financial results may suffer from reduced revenues and from increased marketing expenses as we seek to replace lost revenues by utilizing other

sources.

Rules and guidelines of these natural search engine companies govern our participation on their sites and how we share relevant Internet information that may be considered or incorporated into the algorithms used by these sites. If these rules and guidelines change, or if we fail to present, or improperly present, our site information for use by natural search engine companies, or if any of these natural search engine companies determine that we have violated their rules or guidelines, as Google did in February 2011 through April 2011, or if others improperly present our site information to these search engine companies, we may fail to achieve an optimum ranking in natural search engine listing results, or we may be penalized in a way that could harm our business.

Table of Contents

In addition, large marketplace websites and sites which aggregate marketplace sellers with a large product selection are becoming increasingly popular, and we may not be able to place our products on these sites to take advantage of their internal search platforms. Our inability to place products on or access these sites may have a material adverse effect on our business.

Our business depends on effective marketing, and we change our advertising and marketing programs often.

Our business depends on effective marketing and high customer traffic. We have many initiatives in this area, and often change our advertising and marketing programs. The results of our advertising and marketing programs vary. If we are unable to develop and implement effective advertising and marketing programs, our business and results of operations would be harmed.

We depend upon third parties for many of the services we offer.

We depend upon third parties for all or substantially all of the services we offer, including our insurance offerings, our consumer financing offerings, our new and used car listings, our car-related services and our pet adoption services. Service offerings are inherently different from product offerings, and we may encounter difficulties with our services offerings that may be different from the types of issues we face with our product offerings.

We are subject to cyber security risks and risks of data loss or other security breaches, and may incur increasing costs in an effort to minimize those risks and to respond to cyber incidents.

Our business is entirely dependent on the secure operation of our website and systems as well as the operation of the Internet generally. 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 and litigation. A number of large Internet companies have suffered security breaches, some of which have involved intentional attacks. From time to time we and many other Internet businesses also experience denial of service attacks in which attackers attempt to block customers' access to our Website. If we are unable to avert a denial of service attack for any significant period, we could sustain substantial revenue loss from lost sales and customer dissatisfaction. We may not have the resources or technical sophistication to anticipate or prevent rapidly evolving types of cyber-attacks. 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. If an actual or perceived attack or breach of our security occurs, customer and/or supplier perception of the effectiveness of our security measures could be harmed and we could lose customers, suppliers or both. Actual or anticipated attacks and risks may cause us to incur increasing costs, including costs to deploy additional personnel and protection technologies, train employees, and engage third party experts and consultants.

A person who is able to circumvent our security measures might be able to misappropriate our or our users' proprietary information, cause interruption in our operations, damage our computers or those of our users, or otherwise damage our reputation and business. 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, which could harm our business.

Most of our customers use credit cards to pay for their purchases. We rely on encryption and authentication technology licensed from third parties to provide the security and authentication to effectively secure transmission of confidential information, including customer payment card numbers. We cannot provide assurance that our technology can prevent breaches of the systems that we use to protect customer data. Data breaches can also occur as a result of non-technical issues.

Under payment card rules and our contracts with our card processors, if there is a breach of payment card information that we store, we could be liable to the payment card issuing banks for their cost of issuing new cards and related expenses. In addition, if we fail to follow payment card industry security standards, even if there is no compromise of customer information, we could incur significant fines or lose our ability to give customers the option of using payment cards to fund their payments or pay their fees. If we were unable to accept payment cards, our business would be seriously damaged.

Our servers and the servers of our suppliers may also be vulnerable to computer viruses, physical or electronic break-ins, and similar disruptions, including denial-of-service attacks. We may need to expend significant resources to protect against attacks or security breaches or to address problems caused by attacks or breaches. Any attack or breach incident involving us or persons with whom we have commercial relationships, that results in the unauthorized release of our users' personal information, could damage our reputation and expose us to claims and litigation.

Table of Contents

Third parties have demonstrated that they can breach the security of customer transaction data of large sophisticated Internet retailers, government organizations and others. Any breach, whether it affects us directly or not, could cause our customers to lose confidence in the security of our site or the use of the Internet and e-commerce in general. If third parties are able to penetrate our network security or otherwise misappropriate our customers' personal information or credit card information, or if we give third parties improper access to our customers' personal information or credit card information, we could be subject to claims. The claims could include claims for unauthorized purchases with credit card information, impersonation or other similar fraud claims or damages for alleged violations of state or federal laws governing security protocols for the safekeeping of customers' personal or credit card information. They could also include claims for other misuses of personal information, including unauthorized marketing purposes. These claims could result in litigation. Any of these types of claims could adversely affect our business.

Cyber-attacks affecting our suppliers, delivery services or other service providers could adversely affect us.

We depend on our fulfillment partners to provide a large portion of the product selection we offer and on vendors for the products we purchase and offer in our direct business. We also depend on delivery services to deliver products, and on other service providers, including suppliers of services which support Website operations, including payment systems, customer service support, and communications. Cyber-attacks affecting our delivery services or any of our most significant suppliers or affecting a significant number of our suppliers of products or services could have a material adverse effect on our business. The adverse effects could include our inability to source product or fulfill orders, our customers' or suppliers' inability to contact us or access our Website or call centers or chat lines, or the compromise of our customers' confidential data.

Credit card fraud and our response to it could adversely affect our business.

We routinely receive orders placed with fraudulent credit card data. We do not carry insurance against the risk of credit card fraud, so our failure to adequately control fraudulent credit card transactions could reduce our net revenues and our gross profit. We may suffer losses as a result of orders placed with fraudulent credit card data even if the associated financial institution approved payment of the orders. Under current credit card practices, we may be liable for fraudulent credit card transactions because we do not obtain a cardholder's signature. If we are unable to detect or control credit card fraud, claims against us for these transactions could harm our business, prospects, financial condition and results of operation. Further, to the extent that our efforts to prevent fraudulent orders result in our inadvertent refusal to fill legitimate orders, we would lose the benefit of legitimate potential sales and risk the alienation of legitimate customers.

Natural disasters, pandemics, and geo-political events could adversely affect our business.

Natural disasters, including hurricanes, cyclones, typhoons, tropical storms, floods, earthquakes and tsunamis, weather conditions, including winter storms, droughts and tornados, whether as a result of climate change or otherwise, pandemics, and geo-political events, including civil unrest or terrorist attacks, that affect us or our delivery services, suppliers, credit card processors or other service providers could adversely affect our business.

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

Although we maintain certain types of insurance, we cannot be certain that the types, coverage, or the amounts of coverage we maintain will be adequate for losses actually incurred, or that the insurance will continue to be available to us on economically reasonable terms. Similarly, although we are indemnified by most of our suppliers and vendors for product liability for products they supply us, and we have indemnification agreements with software and hardware

suppliers for losses we might incur as a result of the use of the technology products they supply, we are not indemnified by all our suppliers, nor can we be certain that our indemnification rights are enforceable or adequate to cover actual losses we may incur as a result of the sale or use of products our indemnitors provide to us. Actual losses for which we are not insured or indemnified, or which exceed our insurance coverage or the capacity of our indemnitors, could harm our business, prospects, financial condition and results of operations.

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

The online retail market is rapidly evolving 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:

Table of Contents

- liquidation e-tailers such as SmartBargains;
- online retailers with discount departments such as Amazon.com, Inc., eBay, Inc., Rakuten.com, Inc. (formerly Buy.com, Inc.), and AliExpress (part of the Alibaba Group);
- private sale sites such as Rue La La and Gilt Groupe;
- online specialty retailers such as Bluefly, Inc., Blue Nile, Inc., Wayfair, LLC, Zulily, Inc., and Zappos.com.; and
- traditional general merchandise and specialty retailers and liquidators such as Ross Stores, Inc., T.J. Maxx, Wal-Mart Stores, Inc., Costco Wholesale Corporation, J.C. Penny Company, Inc., Sears Holding Corporation, Target Corporation, Best Buy Co., Inc., Home Depot, Inc. and Barnes and Noble, Inc., all of which also have an online presence.

We expect the online retail market to become even more competitive as traditional liquidators and online retailers continue to develop and improve services that compete with our services. In addition, more traditional manufacturers and retailers may continue to add or improve their e-commerce offerings. Traditional or online retailers may create proprietary, store-based distribution and returns channels. Competitive pressures, including same-day delivery capabilities, from any of our 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, could harm our business.

Further, as a strategic response to changes in the competitive environment, we may from time to time make competitive pricing, service, marketing or other decisions that could harm our business. For example, to the extent that we enter new lines of businesses such as third party logistics or discount brick and mortar retail, we would be competing with large established businesses such as APL Logistics and Ross Stores, Inc. We are currently offering insurance products, and as such face competition from large established businesses with substantially more experience than we have. In the past we have entered the online auctions, car listing and real estate listing businesses in which we compete or competed with large established businesses including eBay, Inc., AutoTrader.com, Inc. and Realtor.com. We no longer offer online auctions services or real estate listing services.

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 our mobile customers or our Club O customers are less profitable to us than our other customers, our business could be harmed.

If one or more states successfully assert 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 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. One or more local, state or foreign jurisdictions may seek to impose sales tax collection obligations on us because we are engaged in online commerce, even though to do so would be contrary to existing court decisions. The future location of our fulfillment or customer service centers networks, or any other operation, service contracts with third parties located in another state, channel distribution arrangements or other agreements with third party sellers, or any act that may be deemed by a state to have established a physical presence in states where we are not now present, may result in additional sales and other tax obligations. New York and other states have passed so-called “Internet affiliate advertising” statutes, which require a remote seller,

with no physical presence in the state, to collect state sales tax if the remote seller contracted for advertising services with an Internet advertiser in that state. In New York and states passing similar laws, we have terminated our use of locally based Internet advertisers. Several other states currently have similar tax proposals under consideration. In a case that went up on appeal, an Illinois state court struck down on constitutional grounds a similar Illinois statute, and the Illinois Supreme Court has upheld that decision. If such laws survive constitutional challenge, we may elect to discontinue in those states valuable marketing through the use of affiliates based in those states, or may begin to collect taxes in those states. In either event, our business could be harmed. Further, our business could be harmed if one or more states or any foreign country successfully asserts that we should collect sales or other taxes on the sale of our merchandise.

Table of Contents

The United States Senate has passed the Marketplace Fairness Act of 2013 ("MFA") which if also passed by the United States House of Representatives and not vetoed, would permit states which comply with the requirements of the MFA to force remote sellers like us to collect taxes in states where we have no physical presence. If the MFA becomes law our business could be harmed.

Other states have enacted forms of economic taxes to which we may be subject. In September 2009, we received a letter of determination from the Ohio Department of Taxation noting the Department's determination that we are required to register for remitting of the Commercial Activity Tax, and that we owed $612,784 in taxes, interest, and penalties as of June 30, 2009 since which time the Ohio Department of Taxation issued additional estimated assessments totaling $170,322 as of September 30, 2013. After contesting the estimates, we later reached an agreement which required our payment of a diminished amount of the estimated assessments, a reduction of interest and a waiver of penalties. Other businesses have continued in lawsuits contesting the constitutionality of the tax and, if successful, we will reassess our position respecting the Ohio tax. If other states enact and commence enforcement of similar commercial activity tax laws, these could harm our business.

Several other 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. In Colorado, a federal court on constitutional grounds granted a preliminary injunction against the state's enforcement of its tax-notice and reporting law. Colorado appealed, and the injunction was overturned on jurisdictional grounds. The ruling is being appealed to the United States Supreme Court, and the plaintiff has also commenced an action in Colorado state court, challenging the law. The Colorado state court has issued a preliminary injunction suspending the law's enforcement on constitutional grounds. In February 2014, another bill was introduced in the Colorado House of Representatives that would require retailers without a physical presence in Colorado 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. Other states have enacted similar legislation and more states may enact these laws. Such laws could harm our business by imposing unreasonable notice burdens upon us, by interposing burdensome transaction notices that negatively affect conversion, or by discouraging customer purchases by requiring detailed purchase reporting.

Economic pressure on states could harm our business.

Economic circumstances affecting many states have increased the pressures on state legislatures and agencies to find ways to increase state revenues. States may continue to increase sales and use tax rates, create new tax laws covering previously untaxed activities, increase existing license fees or create new fees, any or all of which may directly or indirectly harm our business. Similarly, administrative agencies may apply more rigorous enforcement efforts or take aggressive positions respecting the laws they administer, especially if the laws permit the imposition of monetary penalties and fines which either the state or the administrative agency may use to balance their budgets or otherwise fund operations. Any of these activities could directly or indirectly harm our business.

If we do not respond to rapid technological changes, our services could become obsolete, and we could lose customers.

The Internet and the online commerce industry are changing rapidly. To remain competitive, we must continue to enhance and improve the functionality and features of our e-commerce businesses. If we fail to do so, we may lose customers. If competitors introduce new products or services using new technologies or if new industry standards and practices emerge, our Website and our proprietary technology and systems may become obsolete. Our failure to respond to technological change or to adequately maintain, upgrade and develop our computer network and the systems used to process customers' orders and payments could harm our 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 may continue to try to offer additional types of products or services, and we cannot offer any assurance that 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/fulfillment partner sourcing of the products we offer. We may continue to modify this aspect of our business as well as other significant aspects of our business. We cannot offer any assurance that these or any other modifications will be successful or will not result in harm to the business. 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. We may not be able to manage growth effectively, which could damage our reputation, limit our growth and negatively affect our operating results. Further, any new business or website we launch that is not favorably received by consumers could damage our reputation or the Overstock.com brand.

We are attempting to expand our international business, which may cause our business to become increasingly susceptible to numerous international business risks and challenges that could affect our profitability.

We sell products in international markets, and are attempting to expand into these markets more aggressively. International sales and transactions are subject to inherent risks and challenges that could adversely affect our profitability, including:

- the need to develop new supplier and manufacturer relationships;

- the need to comply with additional U.S. and foreign laws and regulations to the extent applicable, including but not limited to, restrictions on advertising practices, regulations governing online services, regulations governing or prohibiting the use of cryptocurrency such as bitcoin, restrictions on importation of specified or proscribed items, importation quotas, consumer protection laws, laws regarding intellectual property rights, laws dealing with consumer and data protection, privacy, encryption, and restrictions on pricing or discounts;

- changes in international laws, regulatory requirements, taxes and tariffs; and

- geopolitical events, such as war and terrorist attacks.

To the extent we generate international sales transactions in the future, any negative impact on our international operations could negatively impact our business. To date, most of our international sales have been denominated in U.S. dollars, and we have not had significant foreign currency risk on those sales. However, in the future, gains and losses on the conversion of foreign payments into U. S. dollars may contribute to fluctuations in our results of operations and fluctuating exchange rates could cause reduced gross revenues and/or gross profit percentages from non-dollar-denominated international sales. Additionally, penalties for non-compliance with laws applicable to international business and trade, such as the U.S. Foreign Corrupt Practices Act, or laws governing or prohibiting the use of cryptocurrency such as bitcoin, could negatively impact our business.

Our foreign brand domain name may cause confusion.

In 2010, we undertook an effort to associate our brand globally with the domain address: www.O.co. We did this in part because in many foreign markets the word “Overstock” lacked a good foreign cognate. Following a period of testing for the O.co brand and domain address, we returned to the Overstock.com name as our primary brand domestically because domestic consumer acceptance did not occur as quickly as we had hoped. While we have returned domestically to the Overstock.com brand and principal domain address, we continue to use the O.co address and brand outside of the United States. There is no assurance that the use of Overstock.com or O.co will gain acceptance or have success in foreign markets.

We have purchased land to build a facility to serve as our future headquarters, and will have environmental and other risks, and may incur environmental expense and liabilities, in connection with the project, and under the environmental indemnity agreement we entered into in connection with our recent credit facility.

In the third quarter of 2014, we purchased land in preparation for our construction of our future headquarters. In purchasing the land, we became subject to the risks of owning real estate, including the risks of environmental

liabilities and the requirements for compliance with applicable laws, rules, regulations, ordinances and other requirements. The land we purchased is part of the Midvale Slat Superfund Site (“Site”), a former Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") superfund site that has been fully remediated pursuant to CERCLA. As purchaser of the property, O.com Land, LLC expects to be protected from CERCLA liability as a bona fide prospective purchaser ("BFPP") so long as in the construction of the headquarters, O.com Land, LLC follows certain requirements of the CERCLA statute and the consent decree governing Site remediation and the maintenance of BFPP status. Among other things, the consent decree requires that we not disturb the ground water by drilling new wells, or disturbing existing wells, and requires us to remediate any excavated soil material according to the specifications of the consent decree. We intend to strictly follow CERCLA and abide by the terms of the consent decree; however, there can be no guarantee that our subsidiary will succeed in maintaining

Table of Contents

BFPP status. Its failure to do so could expose us to environmental liabilities which could be material. Further, in connection with the credit facility we recently entered into with U.S. Bank and other banks, we entered into a broad environmental indemnity agreement pursuant to which we made detailed representations about the environmental status of the land and agreed to indemnify and defend U.S. Bank and other banks and other persons against a broad array of potential environmental claims, liabilities and exposures relating to the property we purchased and the headquarters we intend to build. Any such environmental liabilities, and any liabilities under the environmental indemnity agreement, could be material and could have a material adverse effect on our business, prospects, financial condition and results of operations.

We have entered into contracts and plan to spend approximately $96 million to build, equip and furnish a facility to serve as our future headquarters, and expect to incur risks, expense and debt in connection with the project.

As we proceed with the design, development and construction of a facility for our new headquarters, we will incur the risks and expense of doing so. The design and construction of the headquarters we are planning will be complicated. We may encounter unanticipated developments affecting our estimates regarding the expense of the project. We may also encounter unanticipated delays in the negotiation of definitive agreements and/or the construction of the new facility. Any such difficulties could result in our default under the Loan Agreement and related agreements we have entered into with U.S. Bank and other banks, and could result in material liabilities and expense and could have a material adverse effect on our business, prospects, financial condition and results of operations.

In connection with our design, development and construction of a facility for our new headquarters, we have entered into a syndicated senior secured credit facility, and may need to obtain additional financing as well.

Our current estimate of the total cost of the development and construction and related equipment and furniture of our new headquarters is approximately $96 million. We have entered into a syndicated senior secured credit facility with U.S. Bank and other banks that is intended to provide us with construction and term financing of $45,760,000. The facility is designed to convert to an approximately 6.75-year term loan upon completion of construction. 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. If we fail to comply with any of such covenants, we may be unable to obtain or utilize the financing contemplated by the facility. If the financing we anticipate under the facility is not fully available to us for any reason, it would have a material adverse effect on our liquidity and could have a material adverse effect on our business, prospects, financial condition and results of operations.

We have pledged the land and our new headquarters and all related assets, as well as our inventory and accounts receivable and related assets, to secure our obligations under the syndicated senior secured credit facility.

We have pledged all of our assets relating to the new headquarters and the site on which it is to be located, as well as our inventory, accounts receivable and related assets, and most of our deposit accounts, to secure our obligations under the syndicated senior secured credit facility. The real estate loan and the revolving loan facilities included within the facility are cross-collateralized and cross-defaulted. If we were to default on either loan or have an Event of Default under the facility, the lenders would have the right to, among other things, foreclose on the collateral for our obligations under the facility.

We have entered into long-term interest rate swaps covering a period of approximately nine years.

In connection with the syndicated senior secured credit facility described above, we have entered into interest rate swaps with U.S. Bank and Compass Bank. The interest rate swaps are intended to manage the interest rate risk on the indebtedness we expect to incur in the near future for the Real Estate Loan. However, if for any reason the notional

amounts subject to the swaps fail to substantially match our indebtedness for the Real Estate Loan at any time until the October 2023 maturity of the interest rate swaps, we would be exposed to potential liabilities under the swaps that might not be substantially offset by the interest payments we would owe under the loan agreement. If the lenders under the senior secured credit facility were to fail to fund the Real Estate Loan for any reason, we would remain liable for payments due under the swaps unless we settled the swaps. 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 business, prospects, financial condition and results of operations.

We are prohibited from using the $10 million revolving credit facility included in our syndicated senior secured credit facility with U.S. Bank and other banks for the construction of our future headquarters.

The $10 million revolving credit facility included in the syndicated senior secured credit facility we recently entered into with U.S. Bank and other banks prohibits us from using any proceeds of the revolving facility for any aspect of the construction of our future headquarters. Consequently, these funds will not be available for the construction costs of the facility.

We have entered into a Construction Agreement relating to the construction of the new headquarters; however, many aspects of the proposed construction remain subject to future agreement.

In October 2014 we entered into a Construction Agreement (the "Construction Agreement") with Okland Construction Company Inc. (the "Contractor") regarding preconstruction and construction services to be provided by the Contractor in connection with the construction of our corporate headquarters, together with related facilities and improvements. The Contractor has agreed that the work contemplated by the Construction Agreement will be performed for the Guaranteed Maximum Price (as defined in the Construction Agreement) and in accordance with the Construction Schedule (as defined in the Construction Agreement). However, neither the Guaranteed Maximum Price nor the Construction Schedule has been determined as of the date of the Construction Agreement or as of the date of this report, and the Construction Agreement provides that Contractor does not warrant or guarantee estimates or schedules except as they are included in the future as part of the Guaranteed Maximum Price and the final Project schedule and Construction Schedule. Further, both the Guaranteed Maximum Price and the Construction Schedule are subject to change after they have been determined. Because many aspects of the proposed construction remain subject to future agreement, there is a risk of difficulties under the Construction Agreement, any of which if not resolved to the satisfaction of us and the Contractor could cause difficulties with the construction of our headquarters, any of which in turn could cause us to default under the syndicated senior secured credit facility we recently entered into with U.S. Bank and other banks. Any such adverse developments could result in material liabilities and expense and could have a material adverse effect on our business, prospects, financial condition and results of operations.

We expect to incur substantial indebtedness.

At September 30, 2014, we had no indebtedness for borrowed money, and our only credit facility was a $3 million facility for the issuance of letters of credit. However, we expect to incur substantial indebtedness under the syndicated senior secured credit facility we recently entered into with U.S. Bank and other banks, and we expect to incur substantial additional indebtedness in connection with the completion of our headquarters. In addition, we expect to incur up to the full $10 million of indebtedness potentially available to us under the revolving credit facility included in the senior secured credit facility, and we may also incur additional indebtedness, subject to the limitations set forth in the Loan Agreement governing our senior secured credit facility. All such indebtedness will increase our business risks substantially, including our vulnerability to industry downturns and competitive pressures. Further, the Loan Agreement and related agreements governing the senior secured credit facility contain numerous requirements, including affirmative and negative financial and other covenants. If we are unable to maintain compliance with all of them, we will be in default. Further, to the extent that we incur additional indebtedness, we may be subject to additional requirements. 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 and could make us more vulnerable to industry downturns and competitive pressures. Our ability to meet our debt service obligations is 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.

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, 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 business, prospects, financial condition and results of operations.

Existing or future government regulation could harm our business.

We are subject to regulation at the federal, state and international levels, including regulation relating to privacy, security, retention, transfer and use of personal user information and telemarketing laws. Increasing regulation, along with

Table of Contents

increased governmental or private enforcement, may increase the cost of our business. Compliance with existing and new privacy and security laws may be difficult and costly and may further restrict our ability to collect demographic and personal information from users, which could harm our marketing efforts, and could require us to implement new and potentially costly processes, procedures and/or protective measures. The expansion of these and other laws, both in terms of their number and their applicability to the Internet could also harm our business. Many laws, adopted prior to the advent of the Internet, do not contemplate or address the unique issues raised thereby. Consequently, courts or regulators may apply these laws to Internet commerce in ways that may present difficult or impossible compliance challenges. Laws that do reference the Internet generally remain subject to interpretation by the courts and their applicability and reach are therefore not always clear. Moreover, Internet advances and innovations may result in new questions about the applicability and reach of these laws. Additionally, laws governing the permissible contents of products may adversely affect us, and we are subject to federal and state consumer laws, including those governing advertising, product labeling, product content requirements and product safety. The laws may cause us to incur losses for any non-compliant items in our inventory, or which we may previously have sold. We may be subject to claims related to personal injury, death, environmental or property damage. We may from time to time be 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, in whole, in part or at all, by our liability insurance. These current and future laws and regulations could harm our business, prospects, financial condition and results of operation.

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

Economic conditions may adversely affect our financial performance. In the United States, weakness in the housing market, changes in interest rates, changes in fuel and other energy costs, inflation or deflation or expectations of either inflation or deflation, actual or anticipated levels of unemployment, unavailability or limitations of consumer credit, higher consumer debt levels or efforts by consumers to reduce debt levels, higher tax rates and other changes in tax laws, overall economic slowdown, changes in consumer desires affecting demand for the products and services we sell and other economic factors could adversely affect consumer demand for the products and services we sell. Any of these factors may change the mix of products we sell to a mix with a lower average gross margin and/or result in slower inventory turnover and/or greater markdowns on inventory. Higher interest rates, transportation costs, inflation, higher costs of labor, insurance and healthcare, foreign exchange rates fluctuations, higher tax rates and other changes in tax laws, changes in other laws and regulations and other economic factors in the United States may increase our cost of sales and operating, may increase our selling, general and administrative expenses, and may otherwise adversely affect our operations and operating results. These factors may affect not only our operations, but also the operations of suppliers from whom we purchase goods, which may also result in an increase in the cost to us of the goods and services we sell.

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 our business may be adversely affected by downturns in the U.S. housing industry.

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, 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 uncertain economic outlook, could materially adversely affect

consumer spending habits and our operating results.

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, we concluded that it was more likely than not that we

Table of Contents

will realize our net deferred tax assets based upon future taxable income. Therefore we reversed the valuation allowance at December 31, 2013.

Our conclusion at December 31, 2013 that it is more likely than not that we will realize our net deferred tax assets was based primarily on our estimate of future taxable income. Our estimate of future taxable income is based on internal projections which primarily consider historical performance, but also include various internal estimates and assumptions as well as certain external data. We believe all of these inputs to be reasonable, although inherently subject to significant judgment. If actual results differ significantly from these estimates of future taxable income, a valuation allowance may need to be reestablished for some or all of our deferred tax assets. Establishing an allowance on our net deferred tax assets could have a material adverse effect on our financial condition and operating results.

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.

Changes in state, federal, and foreign tax laws may increase our tax contingencies. The timing of the resolution of income 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 accrued. It is reasonably possible that within the next 12 months we will receive additional assessments by various tax authorities or possibly 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. The volatility of our quarterly tax provision or the resolution of matters related to our tax contingencies could have a material adverse effect on our financial results.

We may need to implement additional finance and accounting systems, procedures and controls as we grow our business and organization and to satisfy new reporting requirements.

We are required to comply with a variety of reporting, accounting and other rules and regulations. Compliance with existing requirements is expensive. Further requirements may increase our costs and require additional management time and resources. We may need to implement additional finance and accounting systems, procedures and controls to satisfy our reporting requirements. If our internal control over financial reporting is determined to be ineffective, such failure could cause investors to lose confidence in our reported financial information, negatively affect the market price of our common stock, subject us to regulatory investigations and penalties, and adversely impact our business and financial condition.

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

Generally accepted accounting principles and related accounting pronouncements, implementation guidelines and interpretations with regard to a wide range of matters that are relevant to our business, including but not limited to revenue recognition, estimating valuation allowances and accrued liabilities (including allowances for returns, credit card chargebacks, doubtful accounts and obsolete and damaged inventory), internal use software and website development (acquired and developed internally), accounting for income taxes, valuation of long-lived and intangible

assets and goodwill, stock-based compensation and loss contingencies, are highly complex and involve many subjective assumptions, estimates and judgments by our management. Changes in these rules or their interpretation or changes in underlying assumptions, estimates or judgments by our management could significantly change our reported or expected financial performance.

We face risks relating to our inventory.

In our direct business, we sell merchandise that we have purchased and hold in inventory. We assume the risks of inventory damage, theft and obsolescence, as well as risks of price erosion for these products. These risks are especially significant because some of the merchandise we sell is characterized by seasonal trends, fashion trends, rapid technological change, obsolescence and price erosion, and because we sometimes make large purchases of particular types of inventory.

Subject to our returns policies, we accept returns of products sold through our fulfillment partners and we have the risk of reselling the returned products. In the past we have recorded charges for obsolete inventory and have had to sell certain merchandise at a discount or loss. To the extent that we rely on purchased inventory, our success will depend on our ability to sell our inventory rapidly, the ability of our buying staff to purchase inventory at attractive prices relative to its resale value and our ability to manage customer returns and other costs. If we are unsuccessful in any of these areas, we may be forced to sell our inventory at a discount or loss. Further, we purchase some of our inventory from foreign suppliers and pay for inventory with U.S. dollars. If the dollar weakens with respect to foreign currencies, foreign suppliers may require us to pay higher prices for products, which could negatively affect our profit margins.

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 those operating other warehouses to receive returns and process orders. If we or our third party providers do not successfully optimize and operate our warehouse and 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 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 do so could negatively impact our operating results and customer experience.

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 condition.

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

In January 2014, we began accepting bitcoins as a form of payment for purchases on our website. Bitcoin is a cryptocurrency that uses cryptography to control the creation and transfer of the currency between individual parties. Bitcoin is not considered legal tender or backed by any government. Since inception in 2009, bitcoins have experienced price volatility, technological glitches and various law enforcement and regulatory interventions. At present we do not accept bitcoin payments directly, but use a third party vendor to accept bitcoin payments on our behalf. That third party vendor then immediately converts the bitcoin payments into U.S. dollars so that we receive payment for the product sold at the sales price in U.S. dollars.

In September 2014 we launched an updated international checkout system which allows us to accept bitcoin globally. The use of cryptocurrency such as bitcoin has been prohibited or effectively prohibited in some countries. Authorities in other countries have issued statements or regulations prohibiting financial institutions or others from holding or dealing in cryptocurrency. Authorities in some countries have issued statements or regulations to the effect that cryptocurrency is not legal tender. Authorities in many other countries have issued warnings about their perceptions of the risks of dealing in bitcoin or other cryptocurrency and/or announcing that cryptocurrency is subject to money

laundering or other laws or to taxation, or that the authorities are studying the legality of cryptocurrency. If we fail to comply with prohibitions applicable to us, we could face regulatory or other enforcement actions and potential fines and other consequences.

We have also begun accumulating bitcoin in an amount of approximately 10% of the amount of our bitcoin-denominated sales as well as other cryptocurrency. Consequently, 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 cryptocurrency we hold. In the future, we may transact in cryptocurrency directly or increase our cryptocurrency holdings. This will subject us to additional exchange risk and other risks as described above, which may have an adverse effect on our results. There is also uncertainty regarding the current and future accounting treatment and tax, legal, and regulatory requirements relating to cryptocurrency or transactions

57

utilizing cryptocurrency. Such accounting, legal, regulatory, and tax developments or other requirements may adversely affect us.

Our effort to develop code for the purposes of facilitating the creation of a decentralized facility for the trading of securities is an area in which we have limited experience, may be expensive, and is subject to the resolution of significant technical and legal and regulatory constraints.

We are working to develop code for the purposes of facilitating the creation of a decentralized facility for the trading of securities. Although we have hired employees with significant experience in the technical workings of Bitcoin and other cryptocurrencies, we do not have significant experience with the types of projects we are now pursuing. These projects may be expensive, and are subject to substantial risk that they may ultimately be unsuccessful. Further, the creation of a decentralized facility for the trading of securities would be subject to the future resolution of numerous significant legal and regulatory constraints and prohibitions. Consequently, even if all technical challenges to these projects were solved, the legal and regulatory constraints and prohibitions may be insurmountable.

We may be adversely affected by fluctuations in precious metal prices.

At September 30, 2014 our investment in precious metals was $8.9 million. Our financial results may be adversely affected by declines in the price of precious metals. The prices of precious metals may fluctuate widely in the future and are affected by numerous factors beyond our control such as interest rates, exchange rates, inflation or deflation, fluctuation in the value of the United States dollar and foreign currencies, global and regional supply and demand, and the political and economic conditions of mineral producing countries throughout the world. Our investment consists of actual precious metals, rather than financial instruments. We store our precious metals off-site in a third party facility. Consequently, we are subject to the risks of physical storage with a third party that we do not control.

We have a history of significant losses. If we do not maintain profitability, our financial condition 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 September 30, 2014, our accumulated deficit was $154.1 million. We need to generate significant revenues to maintain profitability, and we may not be able to do so. Although we had net income of $7.5 million for the nine months ended September 30, 2014 and $16.3 million in fiscal 2013 (net of taxes which includes the release of our valuation allowance on our deferred tax assets), we incurred a net loss of $19.4 million in 2011. 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 public market analysts and investors.

If we fail to accurately forecast our expenses and revenues, our business, prospects, financial condition and results of operations may suffer and the price of our securities may decline.

The rapidly evolving nature of our industry and the constantly evolving nature of our business make forecasting operating results difficult. Since 2005, we have completed several 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. We are also considering purchasing land and constructing a facility to serve as our corporate headquarters. In the past, we have experienced difficulties with upgrades of our infrastructure, and have incurred increased expenses as a result of these difficulties. As a result of expenditures on our infrastructure and potential expenditures on our headquarters, our ability to reduce spending is and will be limited. Therefore, any significant shortfall in the revenues for which we have built and are continuing to build our business

would likely harm our 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 do not stock or are otherwise unable to source products sufficient to meet customer demand, our business would be adversely affected. If we liquidate products, as we have in the past, we may be required to take significant inventory markdowns or write-offs, which could reduce gross profits. We may experience an increase in our net shipping cost due to complimentary upgrades, split-shipments, and additional long-zone shipments necessary to ensure timely delivery for the holiday season. If too many customers access our

58

Table of Contents

Website within a short period of time due to increased holiday demand, we may experience system interruptions that make our Website unavailable or prevent us from efficiently fulfilling orders, which may reduce the volume of goods we sell and the attractiveness of our products and services. 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.

Significant merchandise returns could harm our business.

We allow our customers to return products, subject to our returns policies. If merchandise returns are higher than we expect, our business, prospects, financial condition and results of operations could be harmed. Further, we modify our policies relating to returns from time to time, and policies intended to reduce the number of product returns may result in customer dissatisfaction and/or fewer repeat customers.

Our pricing strategy may not meet customers' price expectations or result in net income.

Demand for our products is generally highly sensitive to price. Our pricing strategies have had, and may continue to have, a significant impact on our net sales and net income. We often offer discounted prices, and free or discounted shipping as a means of attracting customers and encouraging repeat purchases. Such offers and discounts reduce our margins. In addition, our competitors' pricing and marketing strategies are beyond our control and can significantly affect the results of our pricing strategies. If we fail to meet our customers' price expectations, or if we are unable to compete effectively with our competitors when they engage in aggressive pricing strategies or other competitive activities, our business would suffer.

If the products that we offer on our Website do not reflect our customers' tastes and preferences, our sales and profit margins would decrease.

Our success depends in part on our ability to offer products that reflect consumers' tastes and preferences. Consumers' tastes are subject to frequent, significant and sometimes unpredictable changes. Because some of the products that we sell consist of manufacturers' and retailers' excess inventory, we have limited control over some of the products that we are able to offer for sale. If our merchandise fails to satisfy customers' tastes or respond to changes in customer preferences, our sales could suffer and we could be required to mark down unsold inventory, as we have in the past, which would depress our profit margins. In addition, any failure to offer products in line with customers' preferences could allow our competitors to gain market share. This could have an adverse effect on our business.

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. The loss of the services of any of our executive officers or other key employees for any reason could harm our business. Occasionally, members of senior management or key employees may find it necessary to take a leave of absence due to medical or other causes. In early 2013 our Chief Executive Officer and then Chairman of the Board, Dr. Patrick M. Byrne, took a two-month personal leave of absence for medical reasons. Leaves of absence for temporary or extended periods may harm our business. 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 and customer service personnel. Competition for such personnel is intense. Our failure to retain and attract the necessary technical, managerial, editorial, merchandising, marketing, and customer service personnel could harm our business.

In order to obtain future revenue growth and sustain profitability, we will have to attract and retain customers on cost-effective terms.

Our success depends on our ability to attract and retain customers on cost-effective terms. We have relationships with online services, search engines, affiliate marketing websites, directories and other website and e-commerce businesses to provide content, advertising banners and other links that direct customers to our Website. We rely on these relationships as significant sources of traffic to our Website and to generate new customers. 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 those third party Internet advertising affiliates in those states, and we are likely to do so again in the future if necessary. If we are unable to

59

develop or maintain these relationships, or develop and maintain new relationships for newly developed and necessary marketing services on acceptable terms, our ability to attract new customers and our financial condition would suffer. In addition, certain of our online marketing agreements may require us to pay upfront fees and make other payments prior to the realization of the sales, if any, associated with those payments. Current or future relationships or agreements may fail to produce the sales that we anticipate. We periodically conduct national television and radio branding and advertising campaigns. Such campaigns are expensive and may not result in the cost-effective acquisition of customers. Other means of utilizing social media campaigns to attract or retain customers are expensive and may not result in cost-effective acquisition or retention of customers.

We may be unable to protect our proprietary technology or keep up with that of our competitors.

Our success depends to a significant degree upon the protection of our software and other proprietary intellectual property rights. We may be unable to deter misappropriation of our proprietary information, detect unauthorized use or take appropriate steps to enforce our intellectual property rights. In addition, our competitors may now have or may in the future develop technologies that are as good as or better than our technology without violating our proprietary rights. Our failure to protect our software and other proprietary intellectual property rights or to utilize technologies that are as good as our competitors' could put us at a disadvantage to our competitors. In addition, the failure of the third parties whose products we offer for sale on our Website to protect their intellectual property rights, including their domain names, could impair our operations. These failures could harm our business.

We may not be able to obtain trademark protection for our marks, which could impede our efforts to build brand identity.

We have filed trademark applications with the Patent and Trademark Office seeking registration of certain service marks and trademarks. There can be no assurance that our applications will be successful or that we will be able to secure significant protection for our service marks or trademarks in the United States or elsewhere as we expand internationally. Our competitors or others could adopt product or service marks similar to our marks, or try to prevent us from using our marks, thereby impeding our ability to build brand identity and possibly leading to customer confusion. Any claim by another party against us or customer confusion related to our trademarks, or our failure to obtain trademark registration, could harm our business.

We may not be able to enforce protection of our intellectual property rights under the laws of other countries.

We sell products internationally and consequently we are subject to risks of doing business internationally as related to our intellectual property, including:

- legal uncertainty regarding liability for the listings and other content provided by our users, including uncertainty as a result of less Internet-friendly legal systems, unique local laws, and lack of clear precedent or applicable law; and

- differing intellectual property laws, which may provide insufficient protection for our intellectual property.

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

Other parties have claimed and may claim that we infringe their intellectual property rights. We have been and are subject to, and expect to continue to be subject to, legal claims of alleged infringement of the intellectual property rights of third parties. The ready availability of damages, royalties and the potential for injunctive relief has increased the defense litigation costs of patent infringement claims, especially those asserted by third parties whose sole or primary business is to assert such claims. Such claims, even if not meritorious, may result in significant expenditure of financial and managerial resources, and the payment of damages or settlement amounts. Additionally, we may become

subject to injunctions prohibiting us from using software or business processes we currently use or may need to use in the future, or requiring us to obtain licenses from third parties when such licenses may not be available on financially feasible terms or terms acceptable to us or at all. In addition, we may not be able to obtain on favorable terms, or at all, licenses or other rights with respect to intellectual property we do not own in providing e-commerce services to other businesses and individuals under commercial agreements.

Our business and reputation may be harmed by the offering or sale of pirated, counterfeit or illegal items by third parties, and by intellectual property litigation.

Table of Contents

We have received in the past, and we anticipate we will receive in the future, communications alleging that items offered or sold through our Website infringe third party copyrights, trademarks and trade names or other intellectual property rights or that we have otherwise infringed third parties' past, current or future intellectual property rights. We may be unable to prevent third parties from offering and selling unlawful goods, and we may be subject to allegations of civil or criminal liability for unlawful activities carried out by third parties through our Website. We may implement measures in an effort to protect against these potential liabilities that could require us to spend substantial resources and/or to reduce revenues by discontinuing certain service offerings. Any costs incurred as a result of liability or asserted liability relating to the sale of unlawful goods or the unlawful sale of goods could harm our business. Resolving litigation or claims regarding patents or other intellectual property, whether meritorious or not, could be costly, time-consuming, cause service delays, divert our management and key personnel from our business operations, require expensive or unwanted changes in our methods of doing business or require us to enter into costly royalty or licensing agreements, if available. As a result, these claims could harm our business. Negative publicity generated as a result of the foregoing could damage our reputation, harm our business and diminish the value of our brand name.

Use of social media may adversely impact our reputation.

There has been a marked increase in use of social media platforms and similar devices, including weblogs (blogs), social media websites, and other forms of Internet-based communications which allow individual access to a broad audience of consumers and other interested persons. Consumers value readily available information concerning retailers, manufacturers, and their goods and services and often act on such information without further investigation, authentication and without regard to its accuracy. The availability of information on social media platforms and devices is virtually immediate as is its impact. Social media platforms and devices immediately publish the content their subscribers and participants post, often without filters or checks on accuracy of the content posted. The opportunity for dissemination of information, including inaccurate information, is virtually limitless. Information concerning or affecting us may be posted on such platforms and devices at any time. Information posted may be inaccurate and adverse to us, and it may harm our business. The harm may be immediate without affording us an opportunity for redress or correction. Such platforms also could be used for the dissemination of trade secret information or compromise of other valuable company assets, any of which could harm our business.

Our car listing service may be subject to a variety of regulatory requirements and risks.

Many states and other jurisdictions, including Utah, where we are located, have regulations governing the conduct of car sellers and public advertisement for car sales. Generally, these regulations govern the conduct of those sellers advertising their automobiles for sale and are not directly applicable to those providing the medium through which the advertisement is made available to the public. Sellers are often subject to regulations in the nature of "truth in advertising laws." We have no ability to know whether the information sellers provide is correct. While our site terms and conditions of usage prohibit unlawful acts, we cannot assure that sellers will comply with all laws and regulations applicable to them and their transactions. The application of these regulations to online car listing service providers is not clear. Although we do not expect these laws to have a significant effect on our listing service, we will incur costs in complying with these laws, and we may from time to time be required to make changes in our service that may increase our costs, reduce our revenues, cause us to prohibit certain listing or advertising practices, or make other changes that may adversely affect our car listing service. Further, like our shopping business, our car listing service is subject to most of the same laws and regulations that apply to other companies conducting business on and off the Internet. To the extent that current or future laws or regulations prevent users from selling items on our car listing site, they could harm our business. In addition, 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 the Overstock.com brand name generally.

We are involved in substantial litigation.

From time to time we receive claims of and become subject to consumer protection, employment, intellectual property and other commercial litigation 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 or equitable remedies. In addition, we have in the past been, are now, and in the future may be, involved in substantial litigation in which we are the plaintiff, including litigation regarding the constitutionality of certain state tax laws, and the prime broker litigation described below. Any of such litigation, whether as plaintiff or defendant, could be costly and time consuming and could divert management and key personnel from our regular business operations. We do not currently believe that any of our outstanding litigation will have a material adverse effect on our business, prospects, financial condition or results of operations. However, due to the uncertainty of litigation and

61

Table of Contents

depending on the amount and the timing, an unfavorable resolution of some or all of these matters could materially affect our business, prospects, financial condition and results of operations.

California District Attorneys have obtained a judgment against us for alleged violations of California law.

In November 2010, District Attorneys for the California Counties of Alameda, Marin, Monterey, Napa, Santa Clara, Shasta and Sonoma filed a lawsuit seeking damages and an injunction, alleging 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 million. We disputed the allegations and tried the case to the Judge of the court in September 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. An unfavorable resolution of this matter on appeal could materially affect our business, prospects, financial condition and results of operations.

Our prime broker litigation may have an adverse effect on our business and financial condition.

We remain involved in substantial litigation against Goldman Sachs Group, Inc., Goldman Sachs & Co., Goldman Sachs Execution & Clearing L.P., Merrill Lynch, Pierce, Fenner & Smith, Inc., and Merrill Lynch Professional Clearing Corporation, and the use of management's time and attention in connection with the litigation and related matters may reduce the time management is able to spend on other aspects of our business, which may have adverse effects on other aspects of our business. To the extent that any such adverse effects exceed any benefits we may realize from the litigation, it could harm our business, prospects, financial condition and results of operation.

Public statements we or our Chief Executive Officer, Patrick M. Byrne, have made or may make in the future may antagonize regulatory officials or others.

We and our Chief Executive Officer, Patrick M. Byrne, have from time to time made public statements regarding our or his beliefs about matters of public interest, including statements regarding naked short selling and regulatory capture. Some of those public statements have been critical of the Securities and Exchange Commission and other regulatory agencies. These public statements may have consequences for us, whether as a result of increased regulatory scrutiny or otherwise.

The price of our securities may be volatile and you may lose all or a part of your investment.

The market price of our common stock historically has been subject to significant fluctuations. These fluctuations could continue. It is possible that in future periods our results of operations may be below the expectations of public market analysts and investors. If this occurs, the market price of our securities may decline.

Our quarterly operating results are volatile and may adversely affect the market price of our securities.

Our future revenues and operating results have varied in the past and may continue to vary significantly from quarter to quarter due to a number of factors, many of which are outside our control, and any of which could harm our business. As a result, we believe that quarterly comparisons of our operating results are not necessarily meaningful

and that you should not rely on the results of one quarter as an indication of our future performance. In addition to the other risk factors described in this report, additional 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;

•our inability to retain existing customers or encourage repeat purchases;

•the extent to which our existing and future marketing campaigns are successful;

Table of Contents

- price competition that results in lower profit margins or losses;
- the amount and timing of operating costs and capital expenditures relating to the expansion of our business operations and infrastructure including those relating to our construction of our new corporate headquarters;
- 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 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.

Our operating results may fluctuate depending on the season, and such fluctuations may affect the market price of our securities.

We have experienced and expect to continue to experience fluctuations in our operating results because of seasonal fluctuations in traditional retail patterns. Sales in the retail and wholesale industry tend to be significantly higher in the fourth calendar quarter of each year than in the preceding three quarters due primarily to increased shopping activity during the holiday season. However, there can be no assurance that our sales in the fourth quarter will exceed those of the preceding quarters or, if the fourth quarter sales do exceed those of the preceding quarters, that we will be able to manage the increased sales effectively. Further, we generally increase our inventories substantially in anticipation of holiday season shopping activity, which has a negative effect on our cash flow. Securities analysts and investors may inaccurately estimate the effects of seasonality on our results of operations in one or more future quarters and, consequently, our operating results may fall below expectations, causing the market price of our securities to decline.

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

Several of our stockholders own significant portions of our common stock. If one or more of our stockholders were to sell all or a portion of their holdings of our common stock, the market price of our common stock could be negatively impacted. The effect of such sales, or of significant portions of our stock being offered or made available for sale, could result in strong downward pressure on our stock price. Investors should be aware that they could experience significant short-term volatility in our stock if any one or more of such stockholders decide to sell all or a portion of their holdings of our common stock at once or within a short period of time. 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.

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, you will not receive any funds without selling your shares. We cannot assure that you will receive a positive return on your investment when you sell your shares or that you will not lose the entire amount of your 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.

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;

63

- provide that only one-third of our board of directors is elected at each of our annual meetings of stockholders;
- provide that directors may only be removed "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; and
- establish advance notice requirements for nominations for election to our board or for proposing matters that can be acted upon by stockholders at annual stockholder meetings.

In addition, Section 203 of the Delaware General Corporation Law may discourage, delay or prevent a change in control of our company. Section 203 imposes certain restrictions on merger, business combinations and other transactions between us and holders of 15 percent or more of our common stock.

The price of our stock may be vulnerable to manipulation.

We filed an unfair business practice lawsuit against Morgan Stanley & Co. Incorporated, Goldman Sachs & Co., Bear Stearns Companies, Inc., Bank of America Securities LLC, Bank of New York, Citigroup Inc., Credit Suisse (USA) Inc., Deutsche Bank Securities, Inc., Merrill Lynch, Pierce, Fenner & Smith, Inc., and UBS Financial Services, Inc., and settled the case with respect to all defendants except Goldman Sachs Group, Inc., Goldman Sachs & Co., Goldman Sachs Execution & Clearing L.P.; Merrill Lynch, Pierce, Fenner & Smith, Inc., and Merrill Lynch Professional Clearing Corporation. In January 2012, the trial court granted the remaining defendants' motion for summary judgment. We have appealed the ruling.

We believe these remaining defendants engaged in unlawful actions and have caused substantial harm to Overstock, and that certain of the defendants have made efforts to drive the market price of Overstock's common stock down. To the extent that the defendants or other persons engage in any such actions or take any other actions to interfere with or destroy or harm Overstock's existing and/or prospective business relationships with its suppliers, bankers, customers, lenders, investors, prospective investors or others, our business, prospects, financial condition and results of operation could be harmed, and the price of our common stock may be more volatile than it might otherwise be and/or may trade at prices below those that might prevail in the absence of any such efforts. The practice of "abusive naked short selling" continues to place our stock at risk for manipulative attacks by large investment pools and prime brokers.

Abusive naked short selling is the practice by which short sellers place large short sell orders for shares without first borrowing the shares to be sold, or without having first adequately located such shares and arranged for a firm contract to borrow such shares prior to the delivery date set to close the sale. While selling broker dealers are by rule required to deliver shares to close a transaction by a certain date, and while purchasing broker-dealers are obligated by rule to purchase the sold quantity of shares when they are not delivered to close the sale, these rules are often ignored. Abusive naked short selling has a depressive effect on share prices when it is allowed to persist because the economic effect of abusive naked short selling is the oversupply of counterfeit stock to the market. We believe the regulations designed to address this abusive practice are both inadequately structured and inadequately enforced. Consequently,

we believe that without the enactment of adequate regulations and the enforcement necessary to curb these abuses, the manipulations achieved through abusive naked short selling are likely to continue. We believe that our stock has been subject to these abusive practices by those attempting to manipulate its price downward. To the extent that our stock is subject to these practices in the future, our stock may be more volatile than it might otherwise be and/or may trade at prices below those that might prevail in the absence of such abuses.

In the past, our stock has consistently been on the Regulation SHO threshold list.

Regulation SHO requires the stock exchanges to publish daily a list of companies whose stock has failures-to-deliver above a certain threshold. It also requires mandatory close-outs for open fail-to-deliver positions in threshold securities

Table of Contents

persisting for over 13 days, with the aim that no security would appear on the threshold for any extended period. Despite that aim, our common stock has frequently appeared on the Regulation SHO threshold list for extended and continuous periods and, while we do not currently appear on the Regulation SHO threshold list, in the past our stock has been on the list for more trading days than any other company.

Any investment in our securities involves a high degree of risk. Investors should consider carefully the risks and uncertainties described above, 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.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

Table of Contents

ITEM 6. EXHIBITS

(a) Exhibits

10.1	First Amendment dated July 29, 2014 to Purchase and Sale Agreement dated May 5, 2014 between O.Com Land LLC, a Utah limited liability company and wholly owned subsidiary of Overstock.com, Inc., and Gardner Bingham Junction Holdings, L.C., a Utah limited liability company, and Arbor Bingham Junction Holdings, L.C., a Utah limited liability company (incorporated by reference to exhibit 10.1 to our Report on Form 8-K filed on August 6, 2014 (File No. 000-49799).
10.2	Second Amendment dated September 3, 2014 to Purchase and Sale Agreement dated May 5, 2014 between O.Com Land LLC, a Utah limited liability company and wholly owned subsidiary of Overstock.com, Inc., and Gardner Bingham Junction Holdings, L.C., a Utah limited liability company, and Arbor Bingham Junction Holdings, L.C., a Utah limited liability company (incorporated by reference to exhibit 10.1 to our Report on Form 8-K filed on September 8, 2014 (File No. 000-49799).
10.3	Purchase and Sale Agreement dated September 17, 2014 with the Redevelopment Agency of Midvale City (incorporated by reference to exhibit 10.1 to our Report on Form 8-K filed on September 23, 2014 (File No. 000-49799).
10.4	Purchase Option Agreement dated September 17, 2014 with the Redevelopment Agency of Midvale City (incorporated by reference to exhibit 10.2 to our Report on Form 8-K filed on September 23, 2014 (File No. 000-49799).
10.5	Loan Agreement dated as of October 24, 2014 by and between Overstock.com, Inc., O.com Land, LLC, U.S. Bank National Association and the other Banks party thereto from time to time (the “Loan Agreement”) (incorporated by reference to exhibit 10.1 to our Report on Form 8-K filed on October 28, 2014 (File No. 000-49799).
10.6	Revolving Note dated October 24, 2014 made by Overstock.com, Inc. to U.S. Bank pursuant to the Loan Agreement (incorporated by reference to exhibit 10.2 to our Report on Form 8-K filed on October 28, 2014 (File No. 000-49799).
10.7	Revolving Note dated October 24, 2014 made by Overstock.com, Inc. to Compass Bank pursuant to the Loan Agreement (incorporated by reference to exhibit 10.3 to our Report on Form 8-K filed on October 28, 2014 (File No. 000-49799).
10.8	Swing Line Note dated October 24, 2014 made by Overstock.com, Inc. to U.S. Bank National Association as Swing Line Bank pursuant to the Loan Agreement (incorporated by reference to exhibit 10.4 to our Report on Form 8-K filed on October 28, 2014 (File No. 000-49799).
10.9	Construction Note dated October 24, 2014 made by O.com Land, LLC to U.S. Bank pursuant to the Loan Agreement (incorporated by reference to exhibit 10.5 to our Report on Form 8-K filed on October 28, 2014 (File No. 000-49799).
10.10	Construction Note dated October 24, 2014 made by O.com Land, LLC to Compass Bank pursuant to the Loan Agreement (incorporated by reference to exhibit 10.6 to our Report on Form 8-K filed on October 28, 2014 (File No. 000-49799).
10.11	Form of Term Note to be made by O.com Land, LLC pursuant to the Loan Agreement (incorporated by reference to exhibit 10.7 to our Report on Form 8-K filed on October 28, 2014 (File No. 000-49799).
10.12	Security Agreement dated October 24, 2014 between Overstock.com, Inc. and U.S. Bank National Association, as Administrative Bank for the Banks party to the Loan Agreement from time to time (incorporated by reference to exhibit 10.8 to our Report on Form 8-K filed on October 28, 2014 (File No. 000-49799).
10.13	

	Deed of Trust, Assignment of Rents, Security Agreement and Financing Statement dated October 24, 2014, made by O.com Land, LLC to First American Title Insurance Company, as trustee, and U.S. Bank National Association, as Administrative Bank for the Banks party to the Loan Agreement from time to time (incorporated by reference to exhibit 10.9 to our Report on Form 8-K filed on October 28, 2014 (File No. 000-49799).
10.14	Assignment of Construction and Development Documents dated October 24, 2014, made by O.com Land, LLC in favor of U.S. Bank National Association, as Administrative Bank for the Banks party to the Loan Agreement from time to time (incorporated by reference to exhibit 10.10 to our Report on Form 8-K filed on October 28, 2014 (File No. 000-49799).

66

10.15	Assignment of Project Management Agreement dated October 24, 2014, made by O.com Land, LLC to U.S. Bank National Association, as Administrative Bank for the Banks party to the Loan Agreement from time to time and acknowledged and consented to by Gardner CMS, L.C., as project manager (incorporated by reference to exhibit 10.11 to our Report on Form 8-K filed on October 28, 2014 (File No. 000-49799).
10.16	Repayment and Completion Guaranty dated October 24, 2014, made by Overstock.com, Inc. in favor of U.S. Bank National Association, as Administrative Bank for the Banks party to the Loan Agreement from time to time (incorporated by reference to exhibit 10.12 to our Report on Form 8-K filed on October 28, 2014 (File No. 000-49799).
10.17	Environmental Indemnity Agreement dated October 24, 2014, made by O.com Land, LLC and Overstock.com, Inc. in favor of U.S. Bank National Association, as Administrative Bank for the Banks party to the Loan Agreement from time to time (incorporated by reference to exhibit 10.13 to our Report on Form 8-K filed on October 28, 2014 (File No. 000-49799).
10.18	ISDA Master Agreement and Schedule entered into on October 24, 2014 but dated as of August 26, 2014 between U.S. Bank National Association and O.com Land, LLC (the “Master Agreement”), (incorporated by reference to exhibit 10.14 to our Report on Form 8-K filed on October 28, 2014 (File No. 000-49799).
10.19	ISDA Master Agreement and Schedule dated as of October 27, 2014 between Compass Bank and O.com Land, LLC (the “Master Agreement”), (incorporated by reference to exhibit 10.15 to our Report on Form 8-K filed on October 28, 2014 (File No. 000-49799).
10.20	Unlimited Continuing Guaranty (Swap Transactions) entered into on October 24, 2014 but dated as of October 22, 2014 made by Overstock.com, Inc. to U.S. Bank National Association (incorporated by reference to exhibit 10.16 to our Report on Form 8-K filed on October 28, 2014 (File No. 000-49799).
10.21	Confirmation of swap transaction dated October 24, 2014 from U.S. Bank National Association to O.com Land, LLC (incorporated by reference to exhibit 10.17 to our Report on Form 8-K filed on October 28, 2014 (File No. 000-49799).
10.22	Confirmation of swap transaction dated October 27, 2014 from Compass Bank to O.com Land, LLC (incorporated by reference to exhibit 10.18 to our Report on Form 8-K filed on October 28, 2014 (File No. 000-49799).
10.23	Lease Agreement dated October 24, 2014 between O.com Land, LLC and Overstock.com Inc. (incorporated by reference to exhibit 10.19 to our Report on Form 8-K filed on October 28, 2014 (File No. 000-49799).
10.24	Notice of Termination of Option Agreement dated October 24, 2014 (incorporated by reference to exhibit 10.20 to our Report on Form 8-K filed on October 28, 2014 (File No. 000-49799).
10.25	Construction Agreement, dated as of October 13, 2014 by and between O.Com Land, LLC and Okland Construction Company Inc. but executed on October 14, 2014 (incorporated by reference to exhibit 10.1 to our Report on Form 8-K filed on October 20, 2014 (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	The following financial information from our Quarterly Report on Form 10-Q for the third quarter of 2014, filed with the SEC on October 28, 2014, formatted in Extensible Business Reporting Language (“XBRL”): (i) the Consolidated Balance Sheets, (ii) Consolidated Statements of Income and Comprehensive Income (iii) Consolidated Statements of Cash

Flows, (iv) Consolidated Statements of Stockholders' Equity, and (v) Notes to Consolidated Financial Statements.(1)

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(1) Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Act of 1934 and otherwise are not subject to liability under these sections.

67

Table of Contents

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: October 28, 2014	OVERSTOCK.COM, INC.
	/s/ ROBERT P. HUGHES Robert P. Hughes Senior Vice President, Finance and Risk Management