

BLUCORA, INC.  
Form 10-Q  
October 26, 2017  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2017  
or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number: 000-25131

BLUCORA, INC.  
(Exact name of registrant as specified in its charter)

Delaware 91-1718107  
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)  
6333 State Hwy 161, 6th Floor, Irving, Texas 75038  
(Address of principal executive offices) (Zip Code)  
Registrant's telephone number, including area code: (972) 870-6000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.  Yes  No  
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company   
Emerging growth company

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

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

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

| Class                            | Outstanding at<br>October 19, 2017 |
|----------------------------------|------------------------------------|
| Common Stock, Par Value \$0.0001 | 46,125,990                         |

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## BLUCORA, INC.

## UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)

|  | September 30,<br>2017 | December 31,<br>2016 |
|--|-----------------------|----------------------|
| <b>ASSETS</b>  |                       |                      |
| Current assets:  |                       |                      |
| Cash and cash equivalents  | \$ 78,558             | \$ 51,713            |
| Cash segregated under federal or other regulations   | 313                   | 2,355                |
| Available-for-sale investments   | —                     | 7,101                |
| Accounts receivable, net of allowance  | 6,952                 | 10,209               |
| Commissions receivable   | 16,432                | 16,144               |
| Other receivables  | 592                   | 4,004                |
| Prepaid expenses and other current assets, net   | 4,777                 | 6,321                |
| Total current assets   | 107,624               | 97,847               |
| Long-term assets:  |                       |                      |
| Property and equipment, net  | 9,552                 | 10,836               |
| Goodwill, net  | 549,064               | 548,741              |
| Other intangible assets, net   | 336,872               | 362,178              |
| Other long-term assets   | 2,557                 | 3,057                |
| Total long-term assets   | 898,045               | 924,812              |
| Total assets   | \$ 1,005,669          | \$ 1,022,659         |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                       |                      |
| Current liabilities:   |                       |                      |
| Accounts payable   | \$ 3,161              | \$ 4,536             |
| Commissions and advisory fees payable  | 16,564                | 16,587               |
| Accrued expenses and other current liabilities   | 18,768                | 18,528               |
| Deferred revenue   | 7,118                 | 12,156               |
| Current portion of long-term debt, net   | 2,560                 | 2,560                |
| Total current liabilities  | 48,171                | 54,367               |
| Long-term liabilities:   |                       |                      |
| Long-term debt, net  | 344,232               | 248,221              |
| Convertible senior notes, net  | —                     | 164,176              |
| Deferred tax liability, net  | 59,118                | 111,126              |
| Deferred revenue   | 1,031                 | 1,849                |
| Other long-term liabilities  | 8,530                 | 10,205               |
| Total long-term liabilities  | 412,911               | 535,577              |
| Total liabilities  | 461,082               | 589,944              |
| Redeemable noncontrolling interests  | 16,162                | 15,696               |
| Commitments and contingencies (Note 9)   |                       |                      |
| Stockholders' equity:  |                       |                      |
| Common stock, par \$0.0001—authorized shares, 900,000; issued and outstanding shares,<br>46,077 and 41,845 | 5                     | 4                    |
| Additional paid-in capital   | 1,552,609             | 1,510,152            |

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|   |              |              |
|---|--------------|--------------|
| Accumulated deficit                           | (1,024,222 ) | (1,092,756 ) |
| Accumulated other comprehensive income (loss) | 33           | (381 )       |
| Total stockholders' equity                    | 528,425      | 417,019      |
| Total liabilities and stockholders' equity    | \$ 1,005,669 | \$ 1,022,659 |

See accompanying notes to Unaudited Condensed Consolidated Financial Statements.

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## BLUCORA, INC.

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands, except per share data)

|  | Three months ended |            | Nine months ended |            |
|--|--------------------|------------|-------------------|------------|
|  | September 30,      |            | September 30,     |            |
|  | 2017               | 2016       | 2017              | 2016       |
| Revenue:   |                    |            |                   |            |
| Wealth management services revenue                                   | \$86,809           | \$80,088   | \$254,772         | \$233,496  |
| Tax preparation services revenue                                     | 3,362              | 3,149      | 156,936           | 135,614    |
| Total revenue  | 90,171             | 83,237     | 411,708           | 369,110    |
| Operating expenses:  |                    |            |                   |            |
| Cost of revenue:   |                    |            |                   |            |
| Wealth management services cost of revenue                           | 59,607             | 54,921     | 172,444           | 158,213    |
| Tax preparation services cost of revenue                             | 1,314              | 1,319      | 7,543             | 6,549      |
| Amortization of acquired technology                                  | 50                 | 49         | 145               | 765        |
| Total cost of revenue  | 60,971             | 56,289     | 180,132           | 165,527    |
| Engineering and technology   | 5,051              | 4,588      | 14,041            | 12,842     |
| Sales and marketing  | 13,680             | 11,965     | 84,974            | 75,715     |
| General and administrative   | 12,207             | 11,638     | 39,405            | 35,899     |
| Depreciation   | 867                | 968        | 2,680             | 2,906      |
| Amortization of other acquired intangible assets                     | 8,615              | 8,297      | 25,192            | 24,929     |
| Restructuring  | 106                | —          | 2,726             | —          |
| Total operating expenses   | 101,497            | 93,745     | 349,150           | 317,818    |
| Operating income (loss)  | (11,326 )          | (10,508 )  | 62,558            | 51,292     |
| Other loss, net  | (5,241 )           | (11,453 )  | (39,149 )         | (29,883 )  |
| Income (loss) from continuing operations before income taxes         | (16,567 )          | (21,961 )  | 23,409            | 21,409     |
| Income tax benefit (expense)   | (166 )             | 8,537      | (5,952 )          | (8,899 )   |
| Income (loss) from continuing operations                             | (16,733 )          | (13,424 )  | 17,457            | 12,510     |
| Discontinued operations, net of income taxes                         | —                  | (40,528 )  | —                 | (57,981 )  |
| Net income (loss)  | (16,733 )          | (53,952 )  | 17,457            | (45,471 )  |
| Net income attributable to noncontrolling interests                  | (164 )             | (167 )     | (466 )            | (426 )     |
| Net income (loss) attributable to Blucora, Inc.                      | \$(16,897)         | \$(54,119) | \$16,991          | \$(45,897) |
| Net income (loss) per share attributable to Blucora, Inc. - basic:   |                    |            |                   |            |
| Continuing operations  | \$(0.37 )          | \$(0.33 )  | \$0.39            | \$0.29     |
| Discontinued operations  | —                  | (0.97 )    | —                 | (1.40 )    |
| Basic net income (loss) per share                                    | \$(0.37 )          | \$(1.30 )  | \$0.39            | \$(1.11 )  |
| Net income (loss) per share attributable to Blucora, Inc. - diluted: |                    |            |                   |            |
| Continuing operations  | \$(0.37 )          | \$(0.33 )  | \$0.36            | \$0.29     |
| Discontinued operations  | —                  | (0.97 )    | —                 | (1.37 )    |
| Diluted net income (loss) per share                                  | \$(0.37 )          | \$(1.30 )  | \$0.36            | \$(1.08 )  |
| Weighted average shares outstanding:                                 |                    |            |                   |            |
| Basic  | 45,459             | 41,635     | 43,749            | 41,404     |
| Diluted  | 45,459             | 41,635     | 46,813            | 42,329     |
| Other comprehensive income (loss):                                   |                    |            |                   |            |
| Net income (loss)  | \$(16,733)         | \$(53,952) | \$17,457          | \$(45,471) |
| Unrealized gain on available-for-sale investments, net of tax        | —                  | —          | 1                 | 10         |
| Foreign currency translation adjustment                              | 223                | (77 )      | 413               | 246        |
| Other comprehensive income (loss)                                    | 223                | (77 )      | 414               | 256        |
| Comprehensive income (loss)  | (16,510 )          | (54,029 )  | 17,871            | (45,215 )  |

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|   |            |            |          |            |
|---|------------|------------|----------|------------|
| Comprehensive income attributable to noncontrolling interests | (164 )     | (167 )     | (466 )   | (426 )     |
| Comprehensive income (loss) attributable to Blucora, Inc.     | \$(16,674) | \$(54,196) | \$17,405 | \$(45,641) |

See accompanying notes to Unaudited Condensed Consolidated Financial Statements.

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## BLUCORA, INC.

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

|   | Nine months ended<br>September 30, |            |
|---|------------------------------------|------------|
|   | 2017                               | 2016       |
| Operating Activities:   |                                    |            |
| Net income (loss)   | \$17,457                           | \$(45,471) |
| Less: Discontinued operations, net of income taxes  | —                                  | (57,981 )  |
| Net income from continuing operations   | 17,457                             | 12,510     |
| Adjustments to reconcile net income from continuing operations to net cash from operating activities: |                                    |            |
| Stock-based compensation  | 8,434                              | 10,616     |
| Depreciation and amortization of acquired intangible assets   | 28,553                             | 29,080     |
| Restructuring (non-cash)  | 1,499                              | —          |
| Deferred income taxes   | (473 )                             | (12,484 )  |
| Amortization of premium on investments, net   | 10                                 | 164        |
| Amortization of debt issuance costs   | 891                                | 1,440      |
| Accretion of debt discounts   | 1,893                              | 3,599      |
| (Gain) loss on debt extinguishment  | 19,764                             | (641 )     |
| Revaluation of acquisition-related contingent consideration liability                                 | —                                  | 391        |
| Other   | —                                  | 18         |
| Cash provided (used) by changes in operating assets and liabilities:                                  |                                    |            |
| Accounts receivable   | 3,259                              | 793        |
| Commissions receivable  | (288 )                             | 1,034      |
| Other receivables   | 2,384                              | 19,656     |
| Prepaid expenses and other current assets   | 1,720                              | 6,003      |
| Other long-term assets  | 432                                | (1,174 )   |
| Accounts payable  | (1,375 )                           | 1,151      |
| Commissions and advisory fees payable   | (23 )                              | (1,600 )   |
| Deferred revenue  | (5,856 )                           | (1,805 )   |
| Accrued expenses and other current and long-term liabilities  | 949                                | 19,786     |
| Net cash provided by operating activities from continuing operations                                  | 79,230                             | 88,537     |
| Investing Activities:   |                                    |            |
| Business acquisition, net of cash acquired  | —                                  | (1,788 )   |
| Purchases of property and equipment   | (3,809 )                           | (2,648 )   |
| Proceeds from sales of investments  | 249                                | —          |
| Proceeds from maturities of investments   | 7,252                              | 11,808     |
| Purchases of investments  | (409 )                             | (5,147 )   |
| Net cash provided by investing activities from continuing operations                                  | 3,283                              | 2,225      |
| Financing Activities:   |                                    |            |
| Proceeds from credit facilities   | 367,212                            | —          |
| Payments on convertible notes   | (172,827)                          | (20,667 )  |
| Payments on credit facilities   | (285,000)                          | (105,000)  |
| Proceeds from stock option exercises  | 38,228                             | 1,141      |
| Proceeds from issuance of stock through employee stock purchase plan                                  | 1,428                              | 1,402      |
| Tax payments from shares withheld for equity awards   | (6,744 )                           | (1,447 )   |
| Contingent consideration payments for business acquisition  | (946 )                             | —          |
| Net cash used by financing activities from continuing operations                                      | (58,649 )                          | (124,571 ) |

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|  |          |           |
|--|----------|-----------|
| Net cash provided (used) by continuing operations                                | 23,864   | (33,809 ) |
| Net cash provided by operating activities from discontinued operations           | —        | 12,359    |
| Net cash provided by investing activities from discontinued operations           | 1,028    | 43,230    |
| Net cash used by financing activities from discontinued operations               | —        | (9,000 )  |
| Net cash provided by discontinued operations                                     | 1,028    | 46,589    |
| Effect of exchange rate changes on cash, cash equivalents, and restricted cash   | 86       | (15 )     |
| Net increase in cash, cash equivalents, and restricted cash                      | 24,978   | 12,765    |
| Cash, cash equivalents, and restricted cash, beginning of period                 | 54,868   | 59,830    |
| Cash, cash equivalents, and restricted cash, end of period                       | \$79,846 | \$72,595  |
| Cash paid for income taxes from continuing operations                            | \$1,013  | \$2,079   |
| Cash paid for interest from continuing operations                                | \$14,205 | \$23,455  |
| See accompanying notes to Unaudited Condensed Consolidated Financial Statements. |          |           |

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BLUCORA, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1: The Company and Basis of Presentation

Description of the business: Blucora, Inc. (the "Company" or "Blucora") operates two businesses: a Wealth Management business and an online Tax Preparation business. The Wealth Management business consists of the operations of HDV Holdings, Inc. and its subsidiaries ("HD Vest"). HDV Holdings, Inc. is the parent company of the Wealth Management business and owns all outstanding shares of HD Vest, Inc., which serves as a holding company for the various financial services subsidiaries. Those subsidiaries include HD Vest Investment Securities, Inc. (an introducing broker-dealer), HD Vest Advisory Services, Inc. (a registered investment advisor), and HD Vest Insurance Agency, LLC (an insurance broker) (collectively referred to as the "Wealth Management business" or the "Wealth Management segment"). The Tax Preparation business consists of the operations of TaxAct, Inc. ("TaxAct") and provides digital tax preparation solutions for consumers, small business owners, and tax professionals through its website www.TaxAct.com (collectively referred to as the "Tax Preparation business" or the "Tax Preparation segment").

Prior to 2017, the Company also operated an internet Search and Content business and an E-Commerce business through 2016. The Search and Content business operated through the InfoSpace LLC subsidiary ("InfoSpace"), and the E-Commerce business consisted of the operations of Monoprice, Inc. ("Monoprice").

On October 14, 2015, the Company announced its plans to focus on the technology-enabled financial solutions market (the "Strategic Transformation"). Strategic Transformation refers to the Company's transformation into a technology-enabled financial solutions company comprised of TaxAct and HD Vest (see "Note 3: Business Combinations") and the divestitures of the Search and Content and E-Commerce businesses in 2016 (see "Note 4: Discontinued Operations"). As part of the Strategic Transformation and "One Company" operating model, the Company announced on October 27, 2016 plans to relocate its corporate headquarters by June 2017 from Bellevue, Washington to Irving, Texas. The actions to relocate corporate headquarters were intended to drive efficiencies and improve operational effectiveness (see "Note 5: Restructuring"). The restructuring is now substantially complete and it is expected to be completed by early 2018.

Segments: The Company has two reportable segments: the Wealth Management segment and the Tax Preparation segment.

Reclassification: The Company reclassified certain amounts on its consolidated statements of cash flows related to excess tax benefits generated from stock-based compensation and restricted cash, both in connection with the implementation of new accounting pronouncements. See the "Recent accounting pronouncements" section of "Note 2: Summary of Significant Accounting Policies" for additional information.

Note 2: Summary of Significant Accounting Policies

Interim financial information: The accompanying consolidated financial statements have been prepared by the Company under the rules and regulations of the Securities and Exchange Commission (the "SEC") for interim financial reporting. These consolidated financial statements are unaudited and, in management's opinion, include all adjustments, consisting of normal recurring adjustments and accruals, necessary for a fair presentation of the consolidated financial position, results of operations, and cash flows for the periods presented. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States ("GAAP") have been omitted in accordance with the rules and regulations of the SEC. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes in Part II Item 8 of the Company's Annual Report on Form 10-K for the year ended December 31, 2016. Interim results are not necessarily indicative of results for a full year.

Cash, cash equivalents, and restricted cash: The following table presents cash, cash equivalents, and restricted cash as reported on the consolidated balance sheets that equal the total amounts on the consolidated statements of cash flows (in thousands):

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|  | September 30, |          | December 31, |          |
|--|---------------|----------|--------------|----------|
|  | 2017          | 2016     | 2016         | 2015     |
| Cash and cash equivalents  | \$78,558      | \$71,165 | \$51,713     | \$55,473 |
| Cash segregated under federal or other regulations                           | 313           | 630      | 2,355        | 3,557    |
| Restricted cash included in "Prepaid expenses and other current assets, net" | 425           | 100      | 250          | 100      |
| Restricted cash included in "Other long-term assets"                         | 550           | 700      | 550          | 700      |
| Total cash, cash equivalents, and restricted cash                            | \$79,846      | \$72,595 | \$54,868     | \$59,830 |

Cash segregated under federal and other regulations is held in a segregated bank account for the exclusive benefit of the Company's Wealth Management business customers. Restricted cash included in prepaid expenses and other current assets, net and other long-term assets represents amounts pledged as collateral for certain of the Company's banking arrangements.

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

Cash equivalents and debt securities are classified within Level 2 (see "Note 6: Fair Value Measurements") of the fair value hierarchy because the Company values them utilizing market observable inputs. Unrealized gains and losses are included in "Accumulated other comprehensive income (loss)" on the consolidated balance sheets, and amounts reclassified out of comprehensive income into net income are determined on the basis of specific identification.

The Company has a contingent consideration liability that is related to the Company's 2015 acquisition of SimpleTax Software Inc. ("SimpleTax") and is classified within Level 3 (see "Note 6: Fair Value Measurements") of the fair value hierarchy because the Company values it utilizing significant inputs not observable in the market. Specifically, the Company has determined the fair value of the contingent consideration liability based on a probability-weighted discounted cash flow analysis, which includes assumptions related to estimating revenues, the probability of payment, and the discount rate. The change in the fair value of the contingent consideration liability is recognized in "General and administrative" expense on the consolidated statements of comprehensive income for the period in which the fair value changes.

Concentration of credit risk: Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash equivalents, short-term investments, trade accounts receivable, and commissions receivable. These instruments are generally unsecured and uninsured.

For cash equivalents, short-term investments, and commissions receivable, the Company attempts to manage exposure to counterparty credit risk by only entering into agreements with major financial institutions and investment sponsors that are expected to be able to fully perform under the terms of the agreement.

Accounts receivable are typically unsecured and are derived from revenues earned from customers primarily located in the United States operating in a variety of geographic areas. The Company performs ongoing credit evaluations of its customers and maintains allowances for potential credit losses.

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

Revenue recognition - In May 2014, the FASB issued guidance codified in ASC 606, "Revenue from Contracts with Customers," which amends the guidance in former ASC 605 "Revenue Recognition." The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This will be achieved in a five-step process. Enhanced disclosures also will be required. This guidance is effective on a retrospective basis--either to each reporting period presented or with the cumulative effect of initially

applying this guidance recognized at the date of initial application--for annual reporting periods, including interim reporting periods within those annual reporting periods, beginning

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after December 15, 2017. Early adoption is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period.

The Company will adopt the requirements of the new standard on January 1, 2018, utilizing the modified retrospective transition method. Upon adoption, the Company will recognize the cumulative effect of adopting this ASU as an adjustment to the opening balance of retained earnings. Prior periods will not be retrospectively adjusted. The Company expects that the adoption of this ASU will not have a material impact to its consolidated financial statements, including the presentation of revenues in the statement of comprehensive income.

**Leases (ASU 2016-02)** - In February 2016, the FASB issued an ASU on lease accounting, whereby lease assets and liabilities, whether arising from leases that are considered operating or finance (capital) and have a term of twelve months or less, will be recognized on the balance sheet. Enhanced qualitative disclosures also will be required. This guidance is effective on a modified retrospective basis--with various practical expedients related to leases that commenced before the effective date--for annual reporting periods, including interim reporting periods within those annual reporting periods, beginning after December 15, 2018. Early adoption is permitted. The Company currently is evaluating the impact of this guidance on its consolidated financial statements and related disclosures.

**Stock-based compensation (ASU 2016-09)** - In March 2016, the FASB issued an ASU on employee share-based payment accounting. The ASU requires that excess tax benefits and deficiencies be recognized as income tax benefit or expense, rather than as additional paid-in capital. In addition, the ASU requires that excess tax benefits be recorded in the period that shares vest or settle, regardless of whether the benefit reduces taxes payable in the same period.

Cash flows related to excess tax benefits will be included as an operating activity, and no longer classified as a financing activity, in the statement of cash flows. This guidance was effective for annual reporting periods, including interim reporting periods within those annual reporting periods, beginning after December 15, 2016. The guidance related to the recognition of excess tax benefits and deficiencies as income tax benefit or expense was effective on a prospective basis, and the guidance related to the timing of excess tax benefit recognition was effective using a modified retrospective transition method with a cumulative-effect adjustment to equity as of the beginning of the period in which the guidance is adopted. The cash flow presentation guidance was effective on a retrospective or prospective basis.

The Company implemented this ASU on January 1, 2017 and recorded a cumulative-effect adjustment of \$51.5 million to credit retained earnings for deferred tax assets related to net operating losses that arose from excess tax benefits, which the Company has deemed realizable. In addition to this:

At the time of adoption and on a prospective basis, the primary impact of adoption was the recognition of excess tax benefits and deficiencies, including deferred tax assets related to net operating losses that arose from excess tax benefits which the Company has deemed realizable, in the income tax provision (rather than in additional paid-in capital). This caused income taxes to differ from taxes at the statutory rates in 2017. For the three months ended September 30, 2017, the Company recognized an estimated \$7.0 million increase to the income tax provision, which resulted in a \$7.0 million decrease to income from continuing operations and net income attributable to Blucora, a \$0.15 decrease to basic earnings per share, and a \$0.15 decrease to diluted earnings per share. For the nine months ended September 30, 2017, the Company recognized an estimated \$0.4 million increase to the income tax provision, which resulted in a \$0.4 million decrease to income from continuing operations and net income attributable to Blucora, a \$0.01 decrease to basic earnings per share, and a \$0.01 decrease to diluted earnings per share.

The Company applied the cash flow presentation guidance on a retrospective basis, restating the consolidated statements of cash flows to present excess tax benefits as an operating activity (rather than a financing activity). For the three months ended September 30, 2016, this resulted in a decrease to cash provided by operating activities from continuing operations of \$5.6 million and a corresponding decrease to cash used by financing activities from continuing operations for the amount historically presented in the "excess tax benefits from stock-based award activity" line item in the consolidated statements of cash flows. For the nine months ended September 30, 2016, this resulted in an increase to cash provided by operating activities from continuing operations of \$21.4 million and a corresponding increase to cash used by financing activities from continuing operations for the amount historically presented in the "excess tax benefits from stock-based award activity" line item in the consolidated statements of cash flows. The restatement had no impact on total cash flows for the period presented.

The ASU also clarifies that payments made to tax authorities on an employee's behalf for withheld shares should be presented as a financing activity in the statement of cash flows, allows the repurchase of more of an employee's shares for tax withholding purposes without triggering liability accounting, and provides an accounting policy election to account for forfeitures as they occur. The cash flow presentation requirements for payments made to tax authorities on an employee's

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behalf had no impact to any periods presented, since such cash flows historically have been presented as a financing activity. The Company is not planning to change tax withholdings and will continue to estimate forfeitures in determining the amount of compensation cost to be recognized in each period.

Statement of cash flows and restricted cash (ASU 2016-18) - In November 2016, the FASB issued an ASU on the classification and presentation of changes in restricted cash on the statement of cash flows. The ASU requires that the statement of cash flows explains the change during the period in the total of cash, cash equivalents, and restricted cash; therefore, the amounts described as restricted cash should be included with cash and cash equivalents when reconciling the beginning and end of period total amounts on the statement of cash flows. This guidance is effective for annual reporting periods, including interim reporting periods within those annual reporting periods, beginning after December 15, 2017. Early adoption is permitted. The guidance is effective on a retrospective basis. The Company elected to early adopt this guidance as of January 1, 2017. The reclassification was not material to the periods presented and had no impact on total cash flows, income from continuing operations, or net income attributable to Blucora for the periods presented. See the "Cash, cash equivalents, and restricted cash" section of this note for additional information.

Note 3: Business Combinations

HD Vest: On December 31, 2015 and pursuant to the Purchase Agreement dated October 14, 2015, the Company acquired HD Vest for \$613.7 million, after a \$1.8 million final working capital adjustment in the first quarter of 2016. HD Vest provides wealth management solutions for financial advisors and their clients. In connection with the acquisition, certain members of HD Vest management rolled over a portion of the proceeds they would have otherwise received at the closing into shares of the acquisition subsidiary through which the Company consummated the purchase of HD Vest. A portion of those shares were sold to the Company in exchange for a promissory note. After giving effect to the rollover shares and related purchase of the rollover shares for the promissory note, the Company indirectly owns 95.52% of HDV Holdings, Inc., with the remaining 4.48% noncontrolling interest held collectively by the rollover management members and subject to put and call arrangements exercisable beginning in 2019.

The Purchase Agreement dictated that the Company placed into escrow \$20.0 million of additional consideration that was contingent upon HD Vest's 2015 earnings performance. The contingent consideration threshold was not achieved; therefore, the amount was excluded from the purchase price and recorded as a receivable in "Other receivables" as of December 31, 2015 for the amount that was returned to the Company from the escrow agent in the first quarter of 2016.

Note 4: Discontinued Operations

On November 17, 2016, the Company closed on an agreement with YFC-Boneagle Electric Co., Ltd. ("YFC"), under which YFC acquired the E-Commerce business for \$40.5 million, which included a working capital adjustment. Of this amount, \$39.5 million was received in the fourth quarter of 2016 and \$1.0 million was received in the second quarter of 2017--both amounts were included in investing activities from discontinued operations in the consolidated statements of cash flows. The Company used all of the proceeds to pay down debt.

On August 9, 2016, the Company closed on an agreement with OpenMail LLC ("OpenMail"), under which OpenMail acquired substantially all of the assets and assumed certain specified liabilities of the Search and Content business for \$45.2 million, which included a working capital adjustment, and was included in investing activities from discontinued operations in the consolidated statements of cash flows. The Company used all of the proceeds to pay down debt.

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Summarized financial information for discontinued operations is as follows (in thousands):

|   | Three<br>months<br>ended<br>September<br>30,<br>2016 | Nine months<br>ended<br>September<br>30,<br>2016 |
|---|--|--|
| Major classes of items in net income (loss):                |  |  |
| Revenues  | \$-\$53,721  | \$-\$209,108                                     |
| Operating expenses  | —(50,952 )   | —(192,874 )                                      |
| Other loss, net   | —(415 )  | —(844 )  |
| Income from discontinued operations before income taxes     | —2,354   | —15,390  |
| Loss on sale of discontinued operations before income taxes | —(29,509 )   | —(68,034 )                                       |
| Discontinued operations, before income taxes                | —(27,155 )   | —(52,644 )                                       |
| Income tax expense  | —(13,373 )   | —(5,337 )  |
| Discontinued operations, net of income taxes                | \$-\$ (40,528)                                       | \$-\$ (57,981)                                   |

## Note 5: Restructuring

The following table summarizes the activity in the restructuring liability (in thousands), resulting from the relocation of corporate headquarters to Irving, Texas as part of the Strategic Transformation:

|                                  | Employee-Related<br>Termination Costs | Contract<br>Termination<br>Costs | Fixed Asset<br>Impairments | Stock-Based<br>Compensation | Other<br>Costs | Total    |
|----------------------------------|---------------------------------------|----------------------------------|----------------------------|-----------------------------|----------------|----------|
| Balance as of December 31, 2016  | \$ 4,234                              | \$ —                             | \$ —                       | \$ —                        | \$ —           | \$4,234  |
| Restructuring charges            | (30 )                                 | (241 )                           | 1,878                      | 981                         | 32             | 2,620    |
| Payments                         | (434 )                                | (161 )                           | —                          | —                           | (32 )          | (627 )   |
| Non-cash                         | —                                     | 1,457                            | (1,878 )                   | (981 )                      | —              | (1,402 ) |
| Balance as of June 30, 2017      | 3,770                                 | 1,055                            | —                          | —                           | —              | 4,825    |
| Restructuring charges            | (3 )                                  | —                                | —                          | 97                          | 12             | 106      |
| Payments                         | (2,447 )                              | (256 )                           | —                          | —                           | (12 )          | (2,715 ) |
| Non-cash                         | —                                     | —                                | —                          | (97 )                       | —              | (97 )    |
| Balance as of September 30, 2017 | \$ 1,320                              | \$ 799                           | \$ —                       | \$ —                        | \$ —           | \$2,119  |

Employee-related termination costs primarily include severance benefits, under both ongoing and one-time benefit arrangements that are payable at termination dates throughout 2017, with the majority paid in the second half of 2017. Contract termination costs and fixed asset impairments were incurred in connection with the Bellevue facility's operating lease and related fixed assets, which are described further in the next two paragraphs, respectively. Stock-based compensation primarily includes the impact of equity award modifications associated with employment contracts for certain individuals impacted by the relocation, as well as forfeitures that were recorded for severed employees. Other costs include office moving costs.

The Company has a non-cancelable operating lease that runs through 2020 for its former corporate headquarters in Bellevue, Washington, which the Company occupied until May 2017. In March 2017, the Company agreed to a sublease for the entire Bellevue facility, which was effective June 1, 2017 and expires on September 30, 2020, consistent with the underlying operating lease. Under that sublease agreement, the Company will not recover all of its remaining lease rental obligations (including common area maintenance costs and real estate taxes) and, therefore, recognized a loss on sublease of \$1.1 million. See "Note 9: Commitments and Contingencies" for additional information on the sublease. The Company also wrote-off its \$1.5 million deferred rent liability (a non-cash item), related to various lease incentives that had been provided originally by the landlord, and incurred broker commissions related to the sublease agreement. All of these items were recorded as contract termination costs in the first quarter of 2017.

The Company began receiving sublease offers in the first quarter of 2017, at which point it was indicated that the remaining lease rental obligations, and the related value for the leasehold improvements and the office furniture and equipment, would not be fully recovered. As a result and given the nature of these fixed assets, the Company fully impaired the \$1.9 million carrying value of those assets in the first quarter of 2017.

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## Note 6: Fair Value Measurements

In accordance with ASC 820, "Fair Value Measurements and Disclosures", certain of the Company's assets and liabilities, which are carried at fair value, are classified in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market-based inputs, other than Level 1, or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data and reflect the Company's own assumptions.

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

|  | September 30, 2017 | Fair value measurements at the reporting date using Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3)  |
|--|--------------------|--|---|--|
| Cash equivalents: money market and other funds         | \$ 10,827          | \$—  | \$ 10,827                                     | \$ —   |
| Total assets at fair value                             | \$ 10,827          | \$—  | \$ 10,827                                     | \$ —   |
| Acquisition-related contingent consideration liability | \$ 2,704           | \$—  | \$ —  | \$ 2,704   |
| Total liabilities at fair value                        | \$ 2,704           | \$—  | \$ —  | \$ 2,704   |
|  |                    |  |   | Fair value measurements at the reporting date using Quoted prices in active markets for identical assets (Level 1) |
|  | December 31, 2016  |  | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3)  |
| Cash equivalents:                                      |                    |  |   |  |
| U.S government securities                              | \$ 2,749           | \$—  | \$ 2,749                                      | \$ —   |
| Money market and other funds                           | 4,090              | —  | 4,090   | —  |
| Commercial paper                                       | 1,999              | —  | 1,999   | —  |
| Taxable municipal bonds                                | 1,301              | —  | 1,301   | —  |
| Total cash equivalents                                 | 10,139             | —  | 10,139  | —  |
| Available-for-sale investments:                        |                    |  |   |  |
| Debt securities:                                       |                    |  |   |  |
| U.S. government securities                             | 2,000              | —  | 2,000   | —  |
| Commercial paper                                       | 1,998              | —  | 1,998   | —  |
| Time deposits  | 807                | —  | 807   | —  |
| Taxable municipal bonds                                | 2,296              | —  | 2,296   | —  |
| Total debt securities                                  | 7,101              | —  | 7,101   | —  |
| Total assets at fair value                             | \$ 17,240          | \$—  | \$ 17,240                                     | \$ —   |
| Acquisition-related contingent consideration liability | \$ 3,421           | \$—  | \$ —  | \$ 3,421   |
| Total liabilities at fair value                        | \$ 3,421           | \$—  | \$ —  | \$ 3,421   |



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

Acquisition-related contingent consideration liability:

|                                   |         |
|-----------------------------------|---------|
| Balance as of December 31, 2016   | \$3,421 |
| Payment                           | (946 )  |
| Foreign currency transaction loss | 229     |
| Balance as of September 30, 2017  | \$2,704 |

The contingent consideration liability is related to the Company's 2015 acquisition of SimpleTax. The full contractual obligation under the contingent consideration arrangement was accrued during the year ended December 31, 2016. Payments are contingent upon product availability and revenue performance over a three-year period ending December 31, 2018 and are expected to occur annually over that period. The first payment was made in the first quarter of 2017 and classified as a financing activity on the consolidated statements of cash flows. The remaining payments are expected through 2019. The foreign currency transaction loss was included in "Other loss, net" on the consolidated statements of comprehensive income. As of September 30, 2017, \$1.3 million of the contingent consideration liability was included in "Accrued expenses and other current liabilities" and \$1.4 million in "Other long-term liabilities" on the consolidated balance sheets.

The contractual maturities of the debt securities classified as available-for-sale at December 31, 2016 were less than one year.

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

|                                 | Amortized cost | Gross unrealized gains | Gross unrealized losses | Fair value |
|---------------------------------|----------------|------------------------|-------------------------|------------|
| Balance as of December 31, 2016 | \$ 7,102       | \$ —                   | \$ (1 )                 | \$ 7,101   |

The Company had non-recurring Level 3 fair value measurements in 2017 and 2016 related to the redemption and repurchase of its Convertible Senior Notes. See "Note 7: Debt" for details.

Note 7: Debt

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

|                                       | September 30, 2017 |           |                     |                    | December 31, 2016 |            |                     |                    |
|---------------------------------------|--------------------|-----------|---------------------|--------------------|-------------------|------------|---------------------|--------------------|
|                                       | Principal amount   | Discount  | Debt issuance costs | Net carrying value | Principal amount  | Discount   | Debt issuance costs | Net carrying value |
| Senior secured credit facility        | \$350,000          | \$(1,681) | \$(4,727)           | \$343,592          | \$—               | \$—        | \$—                 | \$—                |
| TaxAct - HD Vest 2015 credit facility | —                  | —         | —                   | —                  | 260,000           | (7,124 )   | (5,295 )            | 247,581            |
| Convertible Senior Notes              | —                  | —         | —                   | —                  | 172,859           | (6,913 )   | (1,770 )            | 164,176            |
| Note payable, related party           | 3,200              | —         | —                   | 3,200              | 3,200             | —          | —                   | 3,200              |
| Total debt                            | \$353,200          | \$(1,681) | \$(4,727)           | \$346,792          | \$436,059         | \$(14,037) | \$(7,065)           | \$414,957          |

Senior secured credit facility: On May 22, 2017, Blucora entered into an agreement with a syndicate of lenders for the purposes of refinancing the credit facility previously entered into in 2015 for the purposes of financing the HD Vest acquisition (the "TaxAct - HD Vest 2015 credit facility"), redeeming its Convertible Senior Notes that were outstanding at the time (the "Notes"), and providing future working capital and capital expenditure flexibility.

Consequently, the TaxAct - HD Vest 2015 credit facility was repaid in full and the commitments under the TaxAct - HD Vest revolving credit facility were terminated. The Blucora senior secured credit facility consists of a committed \$50.0 million revolving credit loan, which includes a letter of credit sub-facility, and a \$375.0 million term loan for an aggregate \$425.0 million credit facility. The final maturity dates of the revolving credit loan and term loan are May 22, 2022 and May 22, 2024, respectively. Obligations under the credit facility are guaranteed by certain of Blucora's subsidiaries and secured by the assets of Blucora and those subsidiaries.

Blucora borrowed \$375.0 million under the term loan when it entered into the senior secured credit facility. Principal payments on the term loan are payable quarterly in an amount equal to 0.25% of the initial outstanding principal. The interest rate on the term loan is variable at the London Interbank Offered Rate ("LIBOR"), subject to a floor of 1.00%, plus a margin



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of 3.75%, payable at the end of each interest period. Through September 30, 2017, Blucora has made prepayments of \$25.0 million towards the term loan.

Blucora may borrow under the revolving credit loan in an aggregate principal amount not less than \$2.0 million or any whole multiple of \$1.0 million in excess thereof. Principal payments on the revolving credit loan are payable at maturity. The interest rate on the revolving credit loan is variable, with initial draws at LIBOR plus a margin of 3.00%. Subsequent draws on the revolving credit loan also have variable interest rates, based upon LIBOR plus a margin of between 2.75% and 3.00%. In each case, the applicable margin within the range depends upon Blucora's Consolidated First Lien Net Leverage Ratio (as defined in the credit agreement for the credit facility) over the previous four quarters. Interest is payable at the end of each interest period. Blucora has not borrowed any amounts under the revolving credit loan.

Blucora has the right to permanently reduce and/or prepay, without premium or penalty (other than customary LIBOR breakage costs), the entire credit facility at any time or portions of the credit facility in an aggregate principal amount not less than \$5.0 million (\$2.0 million in the case of prepayments) or any whole multiple of \$1.0 million in excess thereof, except for prepayments through November 22, 2017, which require a prepayment of a premium equal to 1.00% of the total principal amount prepaid. Beginning on December 31, 2018, Blucora will be required to make annual prepayments if certain levels of cash flow are achieved.

The credit facility includes financial and operating covenants, including a consolidated total net leverage ratio, which are set forth in detail in the credit agreement. As of September 30, 2017, Blucora was in compliance with all of the financial and operating covenants.

As of September 30, 2017, the credit facility's principal amount approximated its fair value as it is a variable rate instrument and the current applicable margin approximates current market conditions.

In connection with the refinancing, the Company performed an analysis by creditor and determined that the refinancing qualified as an extinguishment. As a result, the Company recognized a loss on debt extinguishment during the three months ended June 30, 2017, which was recorded in "Other loss, net" on the consolidated statements of comprehensive income and consisted of the following (in thousands):

|   |          |
|---|----------|
| Loss on debt extinguishment - TaxAct - HD Vest 2015 credit facility | \$9,593  |
| Loss on debt extinguishment - Convertible Senior Notes              | 6,715    |
| Total loss on debt extinguishment                                   | \$16,308 |

The amount for the TaxAct - HD Vest 2015 credit facility included the write-off of the remaining unamortized discount and debt issuance costs. For the Notes, the Company allocated the cash paid first to the liability component of the Notes based on the fair value of the redeemed Notes. The fair value was based on a discounted cash flow analysis of the Notes' principal and related interest payments, using a discount rate that approximated the current market rate for similar debt without conversion rights. The difference between the fair value and net carrying value of the repurchased Notes was recognized as a loss and recorded in "Other loss, net" on the consolidated statements of comprehensive income. No amount was allocated to the equity component of the Notes, since the fair value of the liability component exceeded the cash paid.

**TaxAct - HD Vest 2015 credit facility:** The Company had repayment activity of \$64.0 million and \$105.0 million during the nine months ended September 30, 2017 and 2016, respectively. These repayments resulted in the acceleration of a portion of the unamortized discount and debt issuance costs, which were recorded in "Other loss, net" on the consolidated statements of comprehensive income.

**Convertible Senior Notes:** In June 2017, the Company redeemed almost all of the outstanding Notes for cash with proceeds from the senior secured credit facility.

During the nine months ended September 30, 2016, the Company repurchased \$28.4 million of the Notes for cash of \$20.7 million. Similar to the analysis performed for the Notes that were redeemed in June 2017, the Company allocated the cash paid first to the liability component of the Notes based on the fair value of the repurchased Notes. The difference between the fair value and net carrying value of the repurchased Notes was recognized as a gain, since the Notes were repurchased below par value, and recorded in "Other loss, net" on the consolidated statements of comprehensive income. No amount was allocated to the equity component of the Notes, since the fair value of the liability component exceeded the cash paid.



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

|  | Three<br>months<br>ended<br>September<br>30,<br>2016 | Nine months<br>ended<br>September 30,<br>2017 | 2016     |
|--|--|---|----------|
| Contractual interest expense (Cash)            | \$ 1,836   | \$ 3,141                                      | \$ 5,782 |
| Amortization of debt issuance costs (Non-cash) | 231  | 401   | 704      |
| Accretion of debt discount (Non-cash)          | 901  | 1,567   | 2,749    |
| Total interest expense                         | \$ 2,968   | \$ 5,109                                      | \$ 9,235 |

Note payable, related party: The note payable is with the former President of HD Vest and arose in connection with the acquisition of HD Vest. Certain members of HD Vest management rolled over a portion of the proceeds they would have otherwise received at the acquisition's closing into shares of the acquisition subsidiary through which the Company consummated the purchase of HD Vest. The former President of HD Vest sold a portion of his shares to the Company in exchange for the note. The note will be paid over a three-year period, with 50% paid in year one (\$3.2 million was paid in December 2016), 40% paid in year two, and 10% paid in year three. The note bears interest at a rate of 5% per year, with a principal amount that approximates its fair value.

Note 8: Redeemable Noncontrolling Interests

A reconciliation of redeemable noncontrolling interests is as follows (in thousands):

|   |           |
|---|-----------|
| Balance as of December 31, 2016                     | \$ 15,696 |
| Net income attributable to noncontrolling interests | 466       |
| Balance as of September 30, 2017                    | \$ 16,162 |

The redemption amount at September 30, 2017 was \$12.4 million.

Note 9: Commitments and Contingencies

Significant events during the period covered by this Quarterly Report on Form 10-Q, outside of the ordinary course of the Company's business, include debt activity (as discussed further in "Note 7: Debt"), payment of a portion of the acquisition-related contingent consideration liability (as discussed further in "Note 6: Fair Value Measurements"), estimated sublease income of \$3.8 million primarily related to the sublease agreement for the Bellevue facility (as discussed further in "Note 5: Restructuring"), purchase commitments with a vendor to provide cloud computation services of \$11.3 million over the next four years, and a commitment to switch to a new clearing firm provider that has been selected by the Company by the third quarter of 2018. Additional information on the Company's Commitments and Contingencies can be found in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

Litigation: From time to time, the Company is subject to various legal proceedings or claims that arise in the ordinary course of business. The Company accrues a liability when management believes that it is both probable that a liability has been incurred and the amount of loss can be reasonably estimated. The following is a brief description of the more significant legal proceedings. Although the Company believes that resolving such claims, individually or in aggregate, will not have a material adverse impact on its financial statements, these matters are subject to inherent uncertainties. On December 12, 2016, a shareholder derivative action was filed by Jeffrey Tilden against the Company, as a nominal defendant, Andrew Snyder, who was a director of the Company at that time, certain companies affiliated with Mr. Snyder, a former officer of the Company, GCA Savvian Advisors, LLC ("GCA Savvian"), and certain other current and former members of the Blucora Board of Directors, in the Superior Court of the State of California in and for the County of San Francisco. The complaint asserts claims for breaches of fiduciary duty against certain current and former directors of the Company related to the Company's share repurchases and the Company's acquisitions of HD Vest and Monoprice. The complaint asserts a claim against GCA Savvian, the Company's financial advisor in connection with the HD Vest acquisition, for aiding and abetting breaches of fiduciary duty. The complaint also

asserts a claim for insider trading against Mr. Snyder, a former officer of the Company, and certain companies affiliated with Mr. Snyder. The derivative action does not seek monetary damages from the Company. The complaint seeks corporate governance reforms, declaratory relief, monetary damages from the other defendants, attorney's fees and prejudgment interest.

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On March 10, 2017, the Company filed a motion to dismiss for improper venue as a result of a forum selection provision in the Company's bylaws that required the plaintiff to file his derivative fiduciary duty claims in Delaware. Other defendants also filed motions to quash the summons due to a lack of personal jurisdiction over them. On July 25, 2017, the Court granted the Company's motion to dismiss. The case has been stayed by the Court until November 22, 2017, after which the case will be dismissed without further order of the Court.

The Company has entered into indemnification agreements in the ordinary course of business with its officers and directors, and the agreement entered into with GCA Savvian in connection with the acquisition of HD Vest also contained indemnification provisions. Pursuant to these agreements, the Company may be obligated to advance payment of legal fees and costs incurred by the defendants pursuant to the Company's obligations under these indemnification agreements and applicable Delaware law.

**Note 10: Stockholders' Equity**

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

|                                | Three months<br>ended<br>September 30,<br>2017 |         | Nine months<br>ended<br>September 30,<br>2016 |          |
|--------------------------------|--|---------|---|----------|
| Cost of revenue                | \$412  | \$52    | \$546   | \$117    |
| Engineering and technology     | 225  | 434     | 734   | 1,167    |
| Sales and marketing            | 529  | 661     | 1,801   | 1,688    |
| General and administrative     | 1,966  | 2,217   | 5,353   | 7,644    |
| Restructuring                  | 97   | —       | 1,078   | —        |
| Total in continuing operations | 3,229  | 3,364   | 9,512   | 10,616   |
| Discontinued operations        | —  | (727)   | —   | 2,014    |
| Total                          | \$3,229  | \$2,637 | \$9,512                                       | \$12,630 |

In the second quarter of 2017, the Company granted 350,000 non-qualified stock options to certain HD Vest financial advisors, who are considered non-employees. These stock options vest fully three years from the date of grant. The Company used the Black-Scholes-Merton valuation method to calculate stock-based compensation, using assumptions for the risk-free interest rate, expected dividend yield, expected volatility, and expected life under the same methodology that is used for employee grants. Since these are non-employee grants, stock-based compensation expense will be remeasured at the end of each quarter. For the three and nine months ended September 30, 2017, stock-based compensation expense for these non-employees was \$0.4 million and \$0.5 million, respectively, and was recorded in "Cost of revenue" on the consolidated statements of comprehensive income.

Total net shares issued for stock options exercised, RSUs vested, and shares purchased pursuant to the ESPP were as follows (in thousands):

|                                   | Three<br>months<br>ended<br>September<br>30,<br>2017 |     | Nine<br>months<br>ended<br>September<br>30,<br>2016 |     |
|-----------------------------------|--|-----|---|-----|
| Stock options exercised           | 1,243  | —   | 3,651   | 140 |
| RSUs vested                       | 91   | 102 | 442   | 426 |
| Shares purchased pursuant to ESPP | 62   | 114 | 138   | 191 |
| Total                             | 1,396  | 216 | 4,231   | 757 |

**Note 11: Segment Information**

The Company has two reportable segments: the Wealth Management segment and the Tax Preparation segment. The former Search and Content and E-Commerce segments are included in discontinued operations. The Company's Chief

Executive Officer is its chief operating decision maker and reviews financial information presented on a disaggregated basis. This information is used for purposes of allocating resources and evaluating financial performance.

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

|  | Three months ended    |            | Nine months ended     |            |
|--|-----------------------|------------|-----------------------|------------|
|  | September 30,<br>2017 | 2016       | September 30,<br>2017 | 2016       |
| Revenue:                                     |                       |            |                       |            |
| Wealth Management                            | \$86,809              | \$80,088   | \$254,772             | \$233,496  |
| Tax Preparation                              | 3,362                 | 3,149      | 156,936               | 135,614    |
| Total revenue                                | 90,171                | 83,237     | 411,708               | 369,110    |
| Operating income (loss):                     |                       |            |                       |            |
| Wealth Management                            | 12,425                | 11,628     | 36,684                | 32,458     |
| Tax Preparation                              | (6,238 )              | (4,382 )   | 83,410                | 72,987     |
| Corporate-level activity                     | (17,513 )             | (17,754 )  | (57,536 )             | (54,153 )  |
| Total operating income (loss)                | (11,326 )             | (10,508 )  | 62,558                | 51,292     |
| Other loss, net                              | (5,241 )              | (11,453 )  | (39,149 )             | (29,883 )  |
| Income tax benefit (expense)                 | (166 )                | 8,537      | (5,952 )              | (8,899 )   |
| Discontinued operations, net of income taxes | —                     | (40,528 )  | —                     | (57,981 )  |
| Net income (loss)                            | \$(16,733)            | \$(53,952) | \$17,457              | \$(45,471) |

Revenues by major category within each segment are presented below (in thousands):

|                                 | Three months ended September 30, |          | Nine months ended September 30, |           |
|---------------------------------|----------------------------------|----------|---------------------------------|-----------|
|                                 | 2017                             | 2016     | 2017                            | 2016      |
| Wealth Management:              |                                  |          |                                 |           |
| Commission                      | \$39,432                         | \$38,962 | \$117,181                       | \$111,070 |
| Advisory                        | 37,588                           | 32,705   | 107,078                         | 95,759    |
| Asset-based                     | 6,526                            | 5,476    | 19,276                          | 16,689    |
| Transaction and fee             | 3,263                            | 2,945    | 11,237                          | 9,978     |
| Total Wealth Management revenue | \$86,809                         | \$80,088 | \$254,772                       | \$233,496 |
| Tax Preparation:                |                                  |          |                                 |           |
| Consumer                        | \$3,149                          | \$2,950  | \$143,239                       | \$122,678 |
| Professional                    | 213                              | 199      | 13,697                          | 12,936    |
| Total Tax Preparation revenue   | \$3,362                          | \$3,149  | \$156,936                       | \$135,614 |

Note 12: Net Income (Loss) Per Share

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

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The computation of basic and diluted net income (loss) per share attributable to Blucora, Inc. is as follows (in thousands):

|  | Three months ended |            | Nine months ended |            |
|--|--------------------|------------|-------------------|------------|
|  | September 30,      |            | September 30,     |            |
|  | 2017               | 2016       | 2017              | 2016       |
| Numerator:   |                    |            |                   |            |
| Income (loss) from continuing operations                               | \$(16,733)         | \$(13,424) | \$17,457          | \$12,510   |
| Net income attributable to noncontrolling interests                    | (164 )             | (167 )     | (466 )            | (426 )     |
| Income (loss) from continuing operations attributable to Blucora, Inc. | (16,897 )          | (13,591 )  | 16,991            | 12,084     |
| Loss from discontinued operations attributable to Blucora, Inc.        | —                  | (40,528 )  | —                 | (57,981 )  |
| Net income (loss) attributable to Blucora, Inc.                        | \$(16,897)         | \$(54,119) | \$16,991          | \$(45,897) |
| Denominator:   |                    |            |                   |            |
| Weighted average common shares outstanding, basic                      | 45,459             | 41,635     | 43,749            | 41,404     |
| Dilutive potential common shares                                       | —                  | —          | 3,064             | 925        |
| Weighted average common shares outstanding, diluted                    | 45,459             | 41,635     | 46,813            | 42,329     |
| Net income (loss) per share attributable to Blucora, Inc. - basic:     |                    |            |                   |            |
| Continuing operations  | \$(0.37 )          | \$(0.33 )  | \$0.39            | \$0.29     |
| Discontinued operations  | —                  | (0.97 )    | —                 | (1.40 )    |
| Basic net income (loss) per share                                      | \$(0.37 )          | \$(1.30 )  | \$0.39            | \$(1.11 )  |
| Net income (loss) per share attributable to Blucora, Inc. - diluted:   |                    |            |                   |            |
| Continuing operations  | \$(0.37 )          | \$(0.33 )  | \$0.36            | \$0.29     |
| Discontinued operations  | —                  | (0.97 )    | —                 | (1.37 )    |
| Diluted net income (loss) per share                                    | \$(0.37 )          | \$(1.30 )  | \$0.36            | \$(1.08 )  |
| Shares excluded  | 5,798              | 10,246     | 1,160             | 6,317      |

Shares excluded primarily related to the anti-dilutive effect of a net loss (for the three months ended September 30, 2017 and 2016), and stock options with an exercise price greater than the average price during the applicable periods.

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

This Quarterly Report on Form 10-Q contains forward-looking statements that involve risks and uncertainties. The statements in this report that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements generally are identified by the words "anticipate," "believe," "plan," "project," "expect," "future," "intend," "may," "will," "should," "could," "would," "estimate," "predict," "potential," "continue," and similar expressions. These forward-looking statements include, but are not limited to: statements regarding projections of our future financial performance; trends in our businesses; our future business plans and growth strategy, including our "Strategic Transformation;" and the sufficiency of our cash balances and cash generated from operating, investing, and financing activities for our future liquidity and capital resource needs. Forward-looking statements are subject to known and unknown risks, uncertainties, and other factors that may cause our results, levels of activity, performance, achievements, and prospects to be materially different from those expressed or implied by such forward-looking statements. These risks, uncertainties, and other factors include, among others, those identified under Part II Item 1A, "Risk Factors," and elsewhere in this report. You should not rely on forward-looking statements included herein, which speak only as of the date of this Quarterly Report on Form 10-Q or the date specified herein. We do not undertake any obligation to update publicly any forward-looking statement to reflect new information, events, or circumstances after the date of this Quarterly Report on Form 10-Q or to reflect the occurrence of unanticipated events.

The following discussion should be read in conjunction with our consolidated financial statements and accompanying notes included under Part I Item 1 of this report, as well as with our consolidated financial statements, accompanying notes and Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2016.



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### Our Business

Blucora (the "Company," "Blucora," or "we") operates two businesses: a Wealth Management business and an online Tax Preparation business.

The Wealth Management business consists of the operations of HDV Holdings, Inc. and its subsidiaries (collectively referred to as "HD Vest" or the "Wealth Management Business"). HD Vest provides wealth management solutions for financial advisors and their clients. Specifically, HD Vest provides an integrated platform of brokerage, investment advisory and insurance services to assist in making each financial advisor a financial service center for his/her clients. HD Vest was founded to help tax and accounting professionals integrate financial services into their practices. HD Vest primarily recruits independent tax professionals with established tax practices and offers specialized training and support, which allows them to join the HD Vest platform as independent financial advisors. HD Vest generates revenue primarily through commissions, quarterly investment advisory fees based on assets under management and other fees.

The Tax Preparation business consists of the operations of TaxAct, Inc. (collectively referred to as "TaxAct" or the "Tax Preparation business"). TaxAct provides digital do-it-yourself ("DDIY") tax preparation solutions for consumers, small business owners, and tax professionals. TaxAct generates revenue primarily through its online service at [www.TaxAct.com](http://www.TaxAct.com). The TaxAct website and the information contained therein or connected thereto is not intended to be incorporated by reference into this Report.

### Strategic Transformation

On October 14, 2015, we announced our plans to acquire HD Vest and focus on the technology-enabled financial solutions market (the "Strategic Transformation"). The Strategic Transformation refers to our transformation into a technology-enabled financial solutions company comprised of TaxAct and HD Vest and the divestitures of our Search and Content business that was operated through our former InfoSpace LLC subsidiary ("InfoSpace") and our E-Commerce business that consisted of the operations of Monoprice, Inc. ("Monoprice") in 2016. As part of the Strategic Transformation and our model of operating as "One Company", we announced on October 27, 2016 plans to relocate our corporate headquarters by June 2017 from Bellevue, Washington to Irving, Texas. The transformation is intended to drive efficiencies and improve operational effectiveness.

In connection with the relocation of our corporate headquarters, we have incurred restructuring costs of approximately \$6.6 million. These costs are recorded within corporate-level activity for segment purposes. See "Note 5: Restructuring" of the Notes to Unaudited Condensed Consolidated Financial Statements in Part I Item 1 of this report for additional information. We also have incurred costs that do not qualify for restructuring classification, such as recruiting and overlap in personnel expenses as we transition positions to Texas ("Strategic Transformation Costs"). The restructuring is now substantially complete and it is expected to be completed by early 2018.

For a discussion of the associated risks, see the sections under the heading "Risks Associated With our Strategic Transformation" in Part II Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2016.

### Seasonality

Our Tax Preparation business is highly seasonal, with a significant portion of its annual revenue earned in the first four months of our fiscal year. During the third and fourth quarters, the Tax Preparation business typically reports losses in its operating income because revenue from the business is minimal while core operating expenses continue.

### Comparability

We reclassified certain amounts on our consolidated statements of cash flows related to excess tax benefits generated from stock-based compensation and restricted cash, both in connection with the implementation of new accounting pronouncements. See the "Recent accounting pronouncements" section of "Note 2: Summary of Significant Accounting Policies" of the Notes to Unaudited Condensed Consolidated Financial Statements in Part I Item 1 of this report for additional information.

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## RESULTS OF OPERATIONS

## Summary

| (In thousands, except percentages) | Three months ended September 30, |            |                   | Nine months ended September 30, |           |                   |
|------------------------------------|----------------------------------|------------|-------------------|---------------------------------|-----------|-------------------|
|                                    | 2017                             | 2016       | Percentage Change | 2017                            | 2016      | Percentage Change |
| Revenue                            | \$90,171                         | \$83,237   | 8 %               | \$411,708                       | \$369,110 | 12 %              |
| Operating income (loss)            | \$(11,326)                       | \$(10,508) | 8 %               | \$62,558                        | \$51,292  | 22 %              |

Three months ended September 30, 2017 compared with three months ended September 30, 2016

Revenue increased approximately \$6.9 million due to increases of \$6.7 million and \$0.2 million in revenue related to our Wealth Management and Tax Preparation businesses, respectively, as discussed in the following "Segment Revenue/Operating Income" section.

Operating loss increased approximately \$0.8 million, consisting of the \$6.9 million increase in revenue and offset by an \$7.8 million increase in operating expenses. Key changes in operating expenses were:

\$5.9 million increase in the Wealth Management segment's operating expenses primarily due to higher commissions paid to our financial advisors, which fluctuated in proportion to the change in underlying commission and advisory revenues earned on client accounts.

\$2.1 million increase in the Tax Preparation segment's operating expenses primarily due to higher maintenance fees, development costs and personnel expenses resulting from overall increased headcount supporting most functions.

\$0.2 million decrease in corporate-level expense activity primarily due to changes in headcount across most functions.

Nine months ended September 30, 2017 compared with nine months ended September 30, 2016

Revenue increased approximately \$42.6 million due to increases of \$21.3 million and \$21.3 million in revenue related to our Wealth Management and Tax Preparation businesses, respectively, as discussed in the following "Segment Revenue/Operating Income" section.

Operating income increased approximately \$11.3 million, consisting of the \$42.6 million increase in revenue and offset by a \$31.3 million increase in operating expenses. Key changes in operating expenses were:

\$17.1 million increase in the Wealth Management segment's operating expenses due to higher commissions paid to our financial advisors, which fluctuated in proportion to the change in underlying commission and advisory revenues earned on client accounts, and higher net personnel expenses as we continue to standardize employee benefits across our businesses.

\$10.9 million increase in the Tax Preparation segment's operating expenses primarily due to higher spending on marketing, higher professional services fees mostly related to marketing and development projects, higher data center costs related to software support and maintenance fees, increases in growth initiative investments, and higher personnel expenses resulting from overall increased headcount supporting most functions.

\$3.4 million increase in corporate-level expense activity primarily due to Strategic Transformation Costs and increased headcount supporting most functions, partially offset by lower stock-based compensation costs due to fewer grants in the current year and higher expense recognized in the prior year related to HD Vest grants in 2016, partially offset by activity within our Tax Preparation business due to prior forfeitures.

## SEGMENT REVENUE/OPERATING INCOME

The revenue and operating income amounts in this section are presented on a basis consistent with accounting principles generally accepted in the U.S. ("GAAP") and include certain reconciling items attributable to each of the segments. Segment information appearing in "Note 11: Segment Information" of the Notes to Unaudited Condensed Consolidated Financial

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Statements in Part I Item 1 of this report is presented on a basis consistent with our current internal management financial reporting. We have two reportable segments: Wealth Management and Tax Preparation. We do not allocate certain general and administrative costs (including personnel and overhead costs), stock-based compensation, depreciation, amortization of acquired intangible assets, restructuring, other loss, net, and income taxes to segment operating results. We analyze these separately.

## Wealth Management

| (In thousands, except percentages) | Three months ended September 30, |          |                   | Nine months ended September 30, |           |                   |
|------------------------------------|----------------------------------|----------|-------------------|---------------------------------|-----------|-------------------|
|                                    | 2017                             | 2016     | Percentage Change | 2017                            | 2016      | Percentage Change |
| Revenue                            | \$86,809                         | \$80,088 | 8 %               | \$254,772                       | \$233,496 | 9 %               |
| Operating income                   | \$12,425                         | \$11,628 | 7 %               | \$36,684                        | \$32,458  | 13 %              |
| Segment margin                     | 14 %                             | 15 %     |                   | 14 %                            | 14 %      |                   |

Wealth Management revenue is derived from multiple sources. We track sources of revenue, primary drivers of each revenue source, and recurring revenue. In addition, we focus on several business and key financial metrics in evaluating the success of our business relationships, our resulting financial position and operating performance. A summary of our sources of revenue and business metrics are as follows:

## Sources of revenue

| (In thousands, except percentages) | Sources of Revenue      | Primary Drivers         | Three months ended September 30, |          |                   | Nine months ended September 30, |           |                   |
|------------------------------------|-------------------------|-------------------------|----------------------------------|----------|-------------------|---------------------------------|-----------|-------------------|
|                                    |                         |                         | 2017                             | 2016     | Percentage Change | 2017                            | 2016      | Percentage Change |
| Advisor-driven                     | Commission              | - Transactions          | \$39,432                         | \$38,962 | 1 %               | \$117,181                       | \$111,070 | 6 %               |
|                                    |                         | - Asset levels          |                                  |          |                   |                                 |           |                   |
| Other revenue                      | Advisory                | - Advisory asset levels | 37,588                           | 32,705   | 15 %              | 107,078                         | 95,759    | 12 %              |
|                                    |                         | - Cash balances         |                                  |          |                   |                                 |           |                   |
|                                    |                         | - Interest rates        |                                  |          |                   |                                 |           |                   |
|                                    |                         | - Number of accounts    | 6,526                            | 5,476    | 19 %              | 19,276                          | 16,689    | 16 %              |
| Transaction and fee                | Asset-based             | - Client asset levels   |                                  |          |                   |                                 |           |                   |
|                                    |                         | - Account activity      |                                  |          |                   |                                 |           |                   |
| Transaction and fee                | Transaction and fee     | - Number of clients     |                                  |          |                   |                                 |           |                   |
|                                    |                         | - Number of advisors    | 3,263                            | 2,945    | 11 %              | 11,237                          | 9,978     | 13 %              |
|                                    |                         | - Number of accounts    |                                  |          |                   |                                 |           |                   |
|                                    | Total revenue           |                         | \$86,809                         | \$80,088 | 8 %               | \$254,772                       | \$233,496 | 9 %               |
|                                    | Total recurring revenue |                         | \$70,539                         | \$62,543 | 13 %              | \$203,417                       | \$183,772 | 11 %              |
|                                    | Recurring revenue rate  |                         | 81.3 %                           | 78.1 %   |                   | 79.8 %                          | 78.7 %    |                   |

Recurring revenue consists of trailing commissions, advisory fees, fees from cash sweep programs, and certain transaction and fee revenue, all as described further below in Commission revenue, Advisory revenue, Asset-based revenue, and Transaction and fee revenue, respectively. Certain recurring revenues are associated with asset balances and will fluctuate depending on market values and current interest rates. Accordingly, our recurring revenue can be negatively impacted by adverse external market conditions. However, recurring revenue is meaningful despite these fluctuations because it is not dependent upon transaction volumes or other activity-based revenues, which are more difficult to predict, particularly in declining or volatile markets.

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Business metrics

(In thousands, except percentages and as otherwise indicated) September 30,

|   | 2017         | 2016         | Percentage<br>Change |    |
|---|--------------|--------------|----------------------|----|
| Total Assets Under Administration ("AUA") | \$42,696,862 | \$38,482,620 | 11                   | %  |
| Advisory Assets Under Management ("AUM")  | \$11,984,320 | \$10,204,448 | 17                   | %  |
| Percentage of total AUA                   | 28.1         | % 26.5       |                      | %  |
| Number of advisors (in ones)              | 4,392        | 4,568        | (4                   | )% |
| Advisor-driven revenue per advisor        | \$17.5       | \$15.7       | 11                   | %  |

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Total assets under administration ("AUA") includes assets that we hold directly or indirectly on behalf of clients under a safekeeping or custody arrangement or for which we provide administrative services for clients. To the extent that we provide more than one AUA service for a client's assets, the value of the asset is only counted once in the total amount of AUA. AUA assets include Advisory Assets under Management, non-advisory brokerage accounts, annuities and mutual fund positions held directly with fund companies. These assets are not reported on the consolidated balance sheets.

Advisory assets under management ("AUM") includes external client assets for which we provide investment advisory and management services, typically as a fiduciary under the Investment Advisers Act of 1940. Our compensation for providing such services is typically a fee based on the value of the AUM for each advisory client. These assets are not reported on the consolidated balance sheets.

Three months ended September 30, 2017 compared with three months ended September 30, 2016

Wealth Management revenue increased approximately \$6.7 million as discussed by each source of revenue below. Wealth Management operating income increased approximately \$0.8 million, consisting of the \$6.7 million increase in revenue and offset by a \$5.9 million increase in operating expenses. The increase in Wealth Management operating expenses was primarily due to higher commissions paid to our financial advisors, which fluctuated in proportion to the change in underlying commission and advisory revenues earned on client accounts.

Nine months ended September 30, 2017 compared with nine months ended September 30, 2016

Wealth Management revenue increased approximately \$21.3 million as discussed by each source of revenue below. Wealth Management operating income increased approximately \$4.2 million, consisting of the \$21.3 million increase in revenue and offset by an \$17.1 million increase in operating expenses. The increase in Wealth Management operating expenses was primarily due to higher commissions paid to our financial advisors, which fluctuated in proportion to the change in underlying commission and advisory revenues earned on client accounts, and higher net personnel expenses as we continue to standardize employee benefits across our businesses.

Commission revenue: We generate two types of commissions: transaction-based sales commissions and trailing commissions. Transaction-based sales commissions, which occur when clients trade securities or purchase investment products, represent gross commissions generated by our financial advisors. The level of transaction-based sales commissions can vary from period-to-period based on the overall economic environment, number of trading days in the reporting period, and investment activity of our financial advisors' clients. We earn trailing commissions (a commission or fee that is paid periodically over time) on mutual funds and variable annuities held by clients. Trailing commissions are recurring in nature and are based on the market value of investment holdings in trail-eligible assets.

Our commission revenue, by product category and by sales-based and trailing, was as follows:

| (In thousands, except percentages) | Three months ended<br>September 30, |          |                      | Nine months ended September<br>30, |           |                      |  |
|------------------------------------|-------------------------------------|----------|----------------------|------------------------------------|-----------|----------------------|--|
|                                    | 2017                                | 2016     | Percentage<br>Change | 2017                               | 2016      | Percentage<br>Change |  |
| By product category:               |                                     |          |                      |                                    |           |                      |  |
| Mutual funds                       | \$21,128                            | \$20,196 | 5 %                  | \$62,371                           | \$59,021  | 6 %                  |  |
| Variable annuities                 | 12,879                              | 12,395   | 4 %                  | 36,820                             | 35,725    | 3 %                  |  |
| Insurance                          | 3,037                               | 3,689    | (18) %               | 9,715                              | 8,836     | 10 %                 |  |
| General securities                 | 2,388                               | 2,682    | (11) %               | 8,275                              | 7,488     | 11 %                 |  |
| Total commission revenue           | \$39,432                            | \$38,962 | 1 %                  | \$117,181                          | \$111,070 | 6 %                  |  |
| By sales-based and trailing:       |                                     |          |                      |                                    |           |                      |  |
| Sales-based                        | \$15,590                            | \$16,925 | (8) %                | \$49,190                           | \$47,703  | 3 %                  |  |
| Trailing                           | 23,842                              | 22,037   | 8 %                  | 67,991                             | 63,367    | 7 %                  |  |
| Total commission revenue           | \$39,432                            | \$38,962 | 1 %                  | \$117,181                          | \$111,070 | 6 %                  |  |



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Three months ended September 30, 2017 compared with three months ended September 30, 2016

Sales-based commission revenue decreased approximately \$1.3 million primarily due to decreased activity in mutual funds, variable annuities, insurance and general securities resulting from overall market performance and portfolio rebalancings. General securities include equities, exchange-traded funds, bonds and alternative investments.

Trailing commission revenue increased approximately \$1.8 million and reflects an increase in the market value of the underlying assets and, to a lesser extent, the impact of new investments.

Nine months ended September 30, 2017 compared with nine months ended September 30, 2016

Sales-based commission revenue increased approximately \$1.5 million primarily due to increased activity in mutual funds, insurance and general securities resulting from overall market performance, portfolio rebalancings, product availability and segment refocusing, partially offset by decreased activity in variable annuities.

Trailing commission revenue increased approximately \$4.6 million and reflects an increase in the market value of the underlying assets and the impact of new investments.

Advisory revenue: Advisory revenue primarily includes fees charged to clients in advisory accounts where HD Vest is the Registered Investment Advisor ("RIA") and is based on the value of AUM. Advisory fees are typically billed to clients quarterly, in advance, and are recognized as revenue ratably during the quarter. The value of the assets in an advisory account on the billing date determines the amount billed and, accordingly, the revenues earned in the following three-month period. The majority of our accounts are billed in advance using values as of the last business day of the prior calendar quarter.

The activity within our AUM was as follows:

| (In thousands)                                 | Three months ended |                    | Nine months ended  |                    |
|--|--------------------|--------------------|--------------------|--------------------|
|  | September 30, 2017 | September 30, 2016 | September 30, 2017 | September 30, 2016 |
| Balance, beginning of the period               | \$11,551,288       | \$9,814,232        | \$10,397,071       | \$9,692,244        |
| Net increase (decrease) in new advisory assets | 94,408             | 131,982            | 613,848            | (1,357)            |
| Market impact and other                        | 338,624            | 258,234            | 973,401            | 513,561            |
| Balance, end of the period                     | \$11,984,320       | \$10,204,448       | \$11,984,320       | \$10,204,448       |

Increases or decreases in advisory assets have a limited impact on advisory fee revenue in the period in which they occur. Rather, increases or decreases in advisory assets are a primary driver of future advisory fee revenue. Advisory revenue for a particular quarter is predominately driven by the prior quarter-end AUM.

Three months ended September 30, 2017 compared with three months ended September 30, 2016

The increase in advisory revenue of approximately \$4.9 million is primarily due to the increase in the beginning-of-period AUM for the three months ended September 30, 2017 compared with three months ended September 30, 2016, and the conversion of AUA to fee-based AUM.

Nine months ended September 30, 2017 compared with nine months ended September 30, 2016

The increase in advisory revenue of approximately \$11.3 million is consistent with the increase in the beginning-of-period AUM for the nine months ended September 30, 2017 compared with nine months ended September 30, 2016, and the conversion of AUA to fee-based AUM.

Asset-based revenue: Asset-based revenue primarily includes fees from financial product manufacturer sponsorship programs and cash sweep programs.

Three months ended September 30, 2017 compared with three months ended September 30, 2016

Asset-based revenue increased \$1.1 million, primarily from higher cash sweep revenues following increases in interest rates. In the current interest rate environment, and through our current clearing provider, we will not benefit from any future interest rate increases.

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Nine months ended September 30, 2017 compared with nine months ended September 30, 2016

Asset-based revenue increased \$2.6 million, primarily from higher cash sweep revenues following increases in interest rates. In the current interest rate environment, and through our current clearing provider, we will not benefit from any future interest rate increases.

Transaction and fee revenue: Transaction and fee revenue primarily includes fees for executing certain transactions in client accounts and fees related to services provided and other account charges as generally outlined in agreements with financial advisors, clients, and financial institutions.

Three months ended September 30, 2017 compared with three months ended September 30, 2016

Transaction and fee revenue increased approximately \$0.3 million primarily related to advisor fee increases.

Nine months ended September 30, 2017 compared with nine months ended September 30, 2016

Transaction and fee revenue increased approximately \$1.3 million primarily related to advisor fee increases.

#### Tax Preparation

(In thousands, except percentages) Three months ended September 30, Nine months ended September 30,

|                         | 2017      | 2016      | Percentage<br>Change | 2017      | 2016      | Percentage<br>Change |
|-------------------------|-----------|-----------|----------------------|-----------|-----------|----------------------|
| Revenue                 | \$3,362   | \$3,149   | 7 %                  | \$156,936 | \$135,614 | 16 %                 |
| Operating income (loss) | \$(6,238) | \$(4,382) | 42 %                 | \$83,410  | \$72,987  | 14 %                 |
| Segment margin          | (186 )%   | (139 )%   |                      | 53 %      | 54 %      |                      |

Tax Preparation revenue is derived primarily from sales of our consumer tax preparation software and online services as well as other offerings and ancillary services to consumers and small business owners. We also generate revenue through the professional tax preparer software that we sell to professional tax preparers who use it to prepare and file individual and business returns for their clients.

We measure our consumer tax preparation customers using the number of accepted federal tax e-files made through our software and online services. We consider growth in the number of e-files to be an important non-financial metric in measuring the performance of the consumer side of the Tax Preparation business.

We measure our professional tax preparer customers using three metrics--the number of accepted federal tax e-files made through our software, the number of units sold, and the number of e-files per unit sold. We consider growth in these areas to be important non-financial metrics in measuring the performance of the professional tax preparer side of the Tax Preparation business.

Three months ended September 30, 2017 compared with three months ended September 30, 2016

Tax Preparation revenue was comparable to the prior period.

Tax Preparation operating loss increased approximately \$1.9 million, consisting of the \$0.2 million increase in revenue and offset by a \$2.1 million increase in operating expenses. The increase in Tax Preparation segment operating expenses was primarily due to higher maintenance fees, development costs and personnel expenses resulting from overall increased headcount supporting most functions.

Nine months ended September 30, 2017 compared with nine months ended September 30, 2016

Tax Preparation revenue increased approximately \$21.3 million primarily due to growth in revenue earned from online consumer users and, to a lesser extent, increased sales of our professional tax preparer software. Online consumer revenue grew, despite a decrease in e-files, due to growth in average revenue per user, primarily resulting from price increases. The decrease in e-files is consistent with our expectations as we are in the early stages of a multi-year pivot toward profitable customers. Revenue derived from professional tax preparers increased primarily due to an increase in the number of professional preparer units sold.

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Tax Preparation operating income increased approximately \$10.4 million, consisting of the \$21.3 million increase in revenue and offset by a \$10.9 million increase in operating expenses. The increase in Tax Preparation segment operating expenses was primarily due to higher spending on marketing, higher professional services fees mostly related to marketing and development projects, higher data center costs related to software support and maintenance fees, increases in growth initiative investments, and higher personnel expenses resulting from overall increased headcount supporting most functions.

## Corporate-Level Activity

| (In thousands)                             | Three months ended |          |          | Nine months ended |          |          |
|--|--------------------|----------|----------|-------------------|----------|----------|
|  | September 30,      |          |          | September 30,     |          |          |
|  | 2017               | 2016     | Change   | 2017              | 2016     | Change   |
| Operating expenses                         | \$4,587            | \$4,907  | \$(320 ) | \$17,823          | \$14,066 | \$3,757  |
| Stock-based compensation                   | 3,132              | 3,364    | (232 )   | 8,434             | 10,616   | (2,182 ) |
| Acquisition-related costs                  | —                  | —        | —        | —                 | 391      | (391 )   |
| Depreciation                               | 1,023              | 1,137    | (114 )   | 3,216             | 3,386    | (170 )   |
| Amortization of acquired intangible assets | 8,665              | 8,346    | 319      | 25,337            | 25,694   | (357 )   |
| Restructuring                              | 106                | —        | 106      | 2,726             | —        | 2,726    |
| Total corporate-level activity             | \$17,513           | \$17,754 | \$(241 ) | \$57,536          | \$54,153 | \$3,383  |

Certain corporate-level activity is not allocated to our segments, including certain general and administrative costs (including personnel and overhead costs), stock-based compensation, acquisition-related costs, depreciation, amortization of acquired intangible assets, and restructuring. For further detail, refer to segment information appearing in "Note 11: Segment Information" of the Notes to Unaudited Condensed Consolidated Financial Statements in Part I Item 1 of this report.

Three months ended September 30, 2017 compared with three months ended September 30, 2016

Operating expenses, stock-based compensation, depreciation, amortization of acquired intangible assets and restructuring were comparable to the prior period.

Nine months ended September 30, 2017 compared with nine months ended September 30, 2016

Operating expenses included in corporate-level activity increased primarily due to Strategic Transformation Costs and costs associated with leadership changes at HD Vest.

Stock-based compensation decreased primarily due to fewer grants in the current year and higher expense recognized in the prior year related to HD Vest grants in 2016 that were made in connection with the HD Vest acquisition, partially offset by activity within our Tax Preparation business due to prior forfeitures.

Acquisition-related costs include professional fees and other direct transaction costs and changes in the fair value of contingent consideration liabilities related to acquired companies. The SimpleTax acquisition that was completed in 2015 included contingent consideration, for which the fair value of that liability was revalued in the second quarter of 2016. The change in the fair value of the contingent consideration liability is recognized in the period in which the fair value changes.

Amortization of acquired intangible assets were comparable to the prior period.

Restructuring relates to expenses incurred due to our October 27, 2016 announcement to relocate our corporate headquarters by June 2017 from Bellevue, Washington to Irving, Texas. Further detail is provided under the "Operating Expenses - Restructuring" section of the management's discussion and analysis of financial condition and results of operations below.

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## OPERATING EXPENSES

## Cost of Revenue

| (In thousands, except percentages)         | Three months ended September 30, |          |         | Nine months ended September 30, |           |          |
|--|----------------------------------|----------|---------|---------------------------------|-----------|----------|
|  | 2017                             | 2016     | Change  | 2017                            | 2016      | Change   |
| Wealth management services cost of revenue | \$59,607                         | \$54,921 | \$4,686 | \$172,444                       | \$158,213 | \$14,231 |
| Tax preparation services cost of revenue   | 1,314                            | 1,319    | (5 )    | 7,543                           | 6,549     | 994      |
| Amortization of acquired technology        | 50                               | 49       | 1       | 145                             | 765       | (620 )   |
| Total cost of revenue                      | \$60,971                         | \$56,289 | \$4,682 | \$180,132                       | \$165,527 | \$14,605 |
| Percentage of revenue                      | 68                               | % 68     | %       | 44                              | % 45      | %        |

We record the cost of revenue for sales of services when the related revenue is recognized. Cost of revenue consists of costs related to our Wealth Management and Tax Preparation businesses, which include commissions paid to financial advisors, third-party costs, and costs associated with the technical support team and the operation of our data centers. Data center costs include personnel expenses (salaries, stock-based compensation, benefits, and other employee-related costs), the cost of temporary help and contractors, professional services fees (which include technology project consulting fees), software support and maintenance, bandwidth and hosting costs, and depreciation. Cost of revenue also includes the amortization of acquired technology.

Three months ended September 30, 2017 compared with three months ended September 30, 2016

Wealth management services cost of revenue increased primarily due to higher commissions paid to our financial advisors, which fluctuated in proportion to the change in underlying commission and advisory revenues earned on client accounts, and higher stock-based compensation costs related to grants to certain HD Vest financial advisors.

Tax preparation services cost of revenue was comparable to the prior period.

Nine months ended September 30, 2017 compared with nine months ended September 30, 2016

Wealth management services cost of revenue increased primarily due to an increase in commissions paid to our financial advisors, which fluctuated in proportion to the change in underlying commission and advisory revenues earned on client accounts, and higher stock-based compensation costs related to grants to certain HD Vest financial advisors.

Tax preparation services cost of revenue increased primarily due to an increase in data center costs related to software support and maintenance fees.

Amortization of acquired technology decreased due to amortization expense associated with concluding the useful life of certain TaxAct acquisition-related intangible assets during 2016.

## Engineering and Technology

| (In thousands, except percentages) | Three months ended September 30, |         |        | Nine months ended September 30, |          |         |
|------------------------------------|----------------------------------|---------|--------|---------------------------------|----------|---------|
|                                    | 2017                             | 2016    | Change | 2017                            | 2016     | Change  |
| Engineering and technology         | \$5,051                          | \$4,588 | \$463  | \$14,041                        | \$12,842 | \$1,199 |
| Percentage of revenue              | 6                                | % 6     | %      | 3                               | % 3      | %       |

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

Three months ended September 30, 2017 compared with three months ended September 30, 2016

Engineering and technology expenses were comparable to the prior period.

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Nine months ended September 30, 2017 compared with nine months ended September 30, 2016

Engineering and technology expenses increased primarily due to an increase in professional services fees mostly related to Tax Preparation development projects.

## Sales and Marketing

| (In thousands, except percentages) | Three months ended |          |         | Nine months ended |          |         |
|------------------------------------|--------------------|----------|---------|-------------------|----------|---------|
|                                    | September 30,      |          |         | September 30,     |          |         |
|                                    | 2017               | 2016     | Change  | 2017              | 2016     | Change  |
| Sales and marketing                | \$13,680           | \$11,965 | \$1,715 | \$84,974          | \$75,715 | \$9,259 |
| Percentage of revenue              | 15                 | % 14     | %       | 21                | % 21     | %       |

Sales and marketing expenses consist principally of personnel expenses (salaries, stock-based compensation, benefits, and other employee-related costs) and the cost of temporary help and contractors for those engaged in marketing, selling, and sales support operations activities, marketing expenses associated with our HD Vest and TaxAct businesses (which primarily include television, radio, online, text, email, and sponsorship channels), and back office processing support expenses associated with our HD Vest business (occupancy and general office expenses, regulatory fees, and license fees).

Three months ended September 30, 2017 compared with three months ended September 30, 2016

Sales and marketing expenses increased primarily due to a \$0.6 million increase in marketing expenses and a \$1.0 million increase in personnel expenses. The increase in marketing expenses was driven by increased marketing and software support in our Tax Preparation business. Personnel expenses increased primarily in our Wealth Management business due to higher headcount.

Nine months ended September 30, 2017 compared with nine months ended September 30, 2016

Sales and marketing expenses increased primarily due to a \$5.8 million increase in marketing expenses and a \$2.6 million increase in personnel expenses. The increase in marketing expenses was driven by increased marketing in our Tax Preparation business. Personnel expenses increased primarily as we continue to standardize employee benefits across our businesses, and higher headcount across our businesses.

## General and Administrative

| (In thousands, except percentages) | Three months ended |          |        | Nine months ended September |          |         |
|------------------------------------|--------------------|----------|--------|-----------------------------|----------|---------|
|                                    | September 30,      |          |        | 30,                         |          |         |
|                                    | 2017               | 2016     | Change | 2017                        | 2016     | Change  |
| General and administrative         | \$12,207           | \$11,638 | \$ 569 | \$39,405                    | \$35,899 | \$3,506 |
| Percentage of revenue              | 14                 | % 14     | %      | 10                          | % 10     | %       |

General and administrative ("G&A") expenses consist primarily of personnel expenses (salaries, stock-based compensation, benefits, and other employee-related costs), the cost of temporary help and contractors, professional services fees (which include legal, audit, and tax fees), general business development and management expenses, occupancy and general office expenses, business taxes, and insurance expenses.

Three months ended September 30, 2017 compared with three months ended September 30, 2016

G&A expenses increased primarily due to a \$0.8 million increase in personnel expenses, mainly related to Strategic Transformation Costs, offset by lower stock-based compensation due to fewer grants in the current year and higher expense recognized in the prior year related to the timing of grants.

Nine months ended September 30, 2017 compared with nine months ended September 30, 2016

G&A expenses increased primarily due to a \$5.6 million net increase in personnel expenses, mainly related to Strategic Transformation Costs and costs associated with leadership changes at HD Vest, offset by lower stock-based compensation due to fewer grants in the current year and higher expense recognized in the prior year related to the timing of grants.

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## Depreciation and Amortization of Acquired Intangible Assets

| (In thousands, except percentages)         | Three months ended |         |         | Nine months ended |          |         |
|--|--------------------|---------|---------|-------------------|----------|---------|
|  | September 30,      |         |         | September 30,     |          |         |
|  | 2017               | 2016    | Change  | 2017              | 2016     | Change  |
| Depreciation                               | \$867              | \$968   | \$(101) | \$2,680           | \$2,906  | \$(226) |
| Amortization of acquired intangible assets | 8,615              | 8,297   | 318     | 25,192            | 24,929   | 263     |
| Total                                      | \$9,482            | \$9,265 | \$217   | \$27,872          | \$27,835 | \$37    |
| Percentage of revenue                      | 11                 | % 11    | %       | 7                 | % 8      | %       |

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

Depreciation and amortization expenses were comparable to the prior periods.

## Restructuring

| (In thousands, except percentages) | Three months ended |      |        | Nine months ended |      |         |
|------------------------------------|--------------------|------|--------|-------------------|------|---------|
|                                    | September 30,      |      |        | September 30,     |      |         |
|                                    | 2017               | 2016 | Change | 2017              | 2016 | Change  |
| Restructuring                      | \$106              | \$—  | \$106  | \$2,726           | \$—  | \$2,726 |
| Percentage of revenue              | —                  | % —  | %      | 1                 | % —  | %       |

In connection with the Strategic Transformation, including the relocation of our headquarters, we have incurred restructuring costs of approximately \$6.6 million, which includes all costs associated with our non-cancelable operating lease. While the relocation and the related costs were substantially completed by June 2017, the Company expects some costs through early 2018, primarily related to employees who will continue to provide service through that time period.

See "Note 5: Restructuring" of the Notes to Unaudited Condensed Consolidated Financial Statements in Part I Item 1 of this report.

## Other Loss, Net

| (In thousands)                      | Three months ended |          |           | Nine months ended |          |         |
|-------------------------------------|--------------------|----------|-----------|-------------------|----------|---------|
|                                     | September 30,      |          |           | September 30,     |          |         |
|                                     | 2017               | 2016     | Change    | 2017              | 2016     | Change  |
| Interest income                     | \$(31)             | \$(18)   | \$(13)    | \$(76)            | \$(54)   | \$(22)  |
| Interest expense                    | 4,781              | 7,824    | (3,043)   | 16,746            | 25,396   | (8,650) |
| Amortization of debt issuance costs | 177                | 413      | (236)     | 891               | 1,440    | (549)   |
| Accretion of debt discounts         | 53                 | 1,099    | (1,046)   | 1,893             | 3,599    | (1,706) |
| (Gain) loss on debt extinguishment  | 183                | 2,205    | (2,022)   | 19,764            | (641)    | 20,405  |
| Other                               | 78                 | (70)     | 148       | (69)              | 143      | (212)   |
| Other loss, net                     | \$5,241            | \$11,453 | \$(6,212) | \$39,149          | \$29,883 | \$9,332 |

Three months ended September 30, 2017 compared with three months ended September 30, 2016

In the second and third quarter of 2017 we had a loss on debt extinguishment related to prepayments of a portion of the credit facility entered into on May 22, 2017. In the first half of 2017, the third quarter of 2016 and the nine months ended September 30, 2016, we had a loss on debt extinguishment related to the credit facility previously entered into in 2015 for the purpose of financing the HD Vest acquisition (the "TaxAct - HD Vest 2015 credit facility"). In 2016, we made prepayments on a portion of the TaxAct - HD Vest 2015 credit facility, which resulted in the acceleration of a portion of the unamortized debt discount and issuance costs. In connection with the refinancing through the senior secured credit facility that was entered into in May 2017, we paid-off the remaining TaxAct - HD Vest 2015 credit facility and wrote-off the remaining unamortized debt discount and issuance costs. Consequently, the TaxAct - HD Vest 2015 credit facility was terminated. For further detail, see "Note 7: Debt" of the Notes to Unaudited Condensed Consolidated Financial Statements in Part I Item 1 of this report.

The decrease in interest expense, amortization of debt issuance costs, and accretion of debt discounts primarily related to lower balances in the TaxAct - HD Vest 2015 credit facility and the Convertible Senior Notes (the "Notes") due to

prepayments

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on a portion of the TaxAct - HD Vest 2015 credit facility in 2016 and the redemption of all of the Notes in the second quarter of 2017.

Detail on the "(gain) loss on debt extinguishment" is as follows:

| (In thousands)   | Three months ended |         |           | Nine months ended |         |          |
|--|--------------------|---------|-----------|-------------------|---------|----------|
|  | September 30,      |         | Change    | September 30,     |         | Change   |
|  | 2017               | 2016    |           | 2017              | 2016    |          |
| Write-off of debt discount and debt issuance costs on TaxAct - HD Vest 2015 credit facility (related to closure)             | \$—                | \$—     | \$—       | \$9,593           | \$—     | \$9,593  |
| Write-off of debt discount and debt issuance costs on the Notes (related to termination)                                     | —                  | —       | —         | 6,715             | —       | 6,715    |
| Accelerated accretion of debt discount and amortization of debt issuance costs on credit facilities (related to prepayments) | 183                | 2,205   | (2,022)   | 3,456             | 5,039   | (1,583)  |
| Gain on the Notes repurchased  | —                  | —       | —         | —                 | (7,724) | 7,724    |
| Accelerated accretion of debt discount on the Notes (related to repurchase)  | —                  | —       | —         | —                 | 1,628   | (1,628)  |
| Accelerated amortization of debt issuance costs on the Notes (related to repurchase)   | —                  | —       | —         | —                 | 416     | (416)    |
| Total (gain) loss on debt extinguishment   | \$183              | \$2,205 | \$(2,022) | \$19,764          | \$(641) | \$20,405 |

Nine months ended September 30, 2017 compared with nine months ended September 30, 2016

Interest expense, amortization of debt issuance costs, accretion of debt discounts, and (gain) loss on debt extinguishment were affected by the same factors described above that impacted the quarterly period.

In the first quarter of 2016, we repurchased a portion of the Notes, which resulted in a net gain on debt extinguishment, consisting of a gain related to the repurchase of the Notes below par value and offset by the acceleration of a portion of the unamortized debt discount and issuance costs. In connection with the refinancing through the senior secured credit facility, we redeemed all of the Notes in the second quarter of 2017, which resulted in the write-off of the remaining unamortized debt discount and issuance costs as a loss on debt extinguishment.

#### Income Taxes

We recorded income tax expense of \$0.2 million and \$6.0 million in the three and nine months ended September 30, 2017, respectively. Income taxes differed from taxes at the statutory rates in 2017 primarily due to the January 1, 2017 implementation of Accounting Standards Update ("ASU") 2016-09 on stock-based compensation (see "Note 2: Summary of Significant Accounting Policies" of the Notes to Unaudited Condensed Consolidated Financial Statements in Part I Item 1 of this report for additional information). We recorded income tax benefit of \$8.5 million and income tax expense of \$8.9 million in the three and nine months ended September 30, 2016, respectively. Income taxes differed from taxes at the statutory rates in 2016 primarily due to the domestic manufacturing deduction, offset by non-deductible compensation and state income taxes.

#### Discontinued Operations, Net of Income Taxes

| (In thousands)                               | Three months ended |            | Nine months ended |            |
|--|--------------------|------------|-------------------|------------|
|  | September 30,      |            | September 30,     |            |
|  | 2017               | 2016       | 2017              | 2016       |
| Discontinued operations, net of income taxes | \$—                | \$(40,528) | \$40,528          | \$(57,981) |

On October 14, 2015, we announced our Strategic Transformation, which included plans to divest the Search and Content and E-Commerce businesses. Our results of operations reflect the Search and Content and E-Commerce businesses as discontinued operations for all periods presented. Amounts in discontinued operations include previously unallocated

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depreciation, amortization, stock-based compensation, income taxes, and other corporate expenses that were attributable to the Search and Content and E-Commerce businesses. We completed both divestitures in 2016--specifically, Search and Content in the third quarter of 2016 and E-Commerce in the fourth quarter of 2016. See "Note 4: Discontinued Operations" of the Notes to Unaudited Condensed Consolidated Financial Statements in Part I Item 1 of this report for additional information on discontinued operations.

**NON-GAAP FINANCIAL MEASURES**

**Adjusted EBITDA:** We define Adjusted EBITDA as net income (loss) attributable to Blucora, Inc., determined in accordance with GAAP, excluding the effects of stock-based compensation, depreciation, amortization of acquired intangible assets (including acquired technology), restructuring, other loss, net, the impact of noncontrolling interests, income tax expense, the effects of discontinued operations, and acquisition-related costs. Restructuring costs relate to the move of our corporate headquarters, which was announced in the fourth quarter of 2016. Acquisition-related costs include professional services fees and other direct transaction costs and changes in the fair value of contingent consideration liabilities related to acquired companies. The SimpleTax acquisition that was completed in 2015 included contingent consideration, for which the fair value of that liability was revalued in the second quarter of 2016. For further detail, see "Note 7: Debt" of the Notes to Unaudited Condensed Consolidated Financial Statements in Part I Item 1 of this report.

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

| (In thousands)  | Three months ended |                    | Nine months ended  |                    |
|---|--------------------|--------------------|--------------------|--------------------|
|   | September 30, 2017 | September 30, 2016 | September 30, 2017 | September 30, 2016 |
| Net income (loss) attributable to Blucora, Inc.             | \$(16,897)         | \$(54,119)         | \$16,991           | \$(45,897)         |
| Stock-based compensation                                    | 3,132              | 3,364              | 8,434              | 10,616             |
| Depreciation and amortization of acquired intangible assets | 9,688              | 9,483              | 28,553             | 29,080             |
| Restructuring   | 106                | —                  | 2,726              | —                  |
| Other loss, net   | 5,241              | 11,453             | 39,149             | 29,883             |
| Net income attributable to noncontrolling interests         | 164                | 167                | 466                | 426                |
| Income tax expense (benefit)                                | 166                | (8,537)            | 5,952              | 8,899              |
| Discontinued operations, net of income taxes                | —                  | 40,528             | —                  | 57,981             |
| Acquisition-related costs                                   | —                  | —                  | —                  | 391                |
| <b>Adjusted EBITDA</b>                                      | <b>\$1,600</b>     | <b>\$2,339</b>     | <b>\$102,271</b>   | <b>\$91,379</b>    |

Three months ended September 30, 2017 compared with three months ended September 30, 2016

The decrease in Adjusted EBITDA was primarily due to an increase in segment operating loss of \$1.9 million related to our Tax Preparation segment, an increase in segment operating income of \$0.8 million related to our Wealth Management segment, and a \$0.3 million decrease in corporate operating expenses not allocated to the segments primarily due to changes in headcount across most functions.

Nine months ended September 30, 2017 compared with nine months ended September 30, 2016

The increase in Adjusted EBITDA was primarily due to increases in segment operating income of \$10.4 million and \$4.2 million related to our Tax Preparation and Wealth Management segments, respectively, offset by a \$3.8 million

increase in

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corporate operating expenses not allocated to the segments primarily due to Strategic Transformation Costs and increased headcount supporting most functions, partially offset by lower stock-based compensation costs. Non-GAAP net income (loss): We define non-GAAP net income (loss) as net income (loss) attributable to Blucora, Inc., determined in accordance with GAAP, excluding the effects of discontinued operations, stock-based compensation, amortization of acquired intangible assets (including acquired technology), accretion of debt discount and accelerated accretion of debt discount on the Convertible Senior Notes (the "Notes"), gain on the Notes repurchased, write-off of debt discount and debt issuance costs on the Notes that were redeemed and the terminated TaxAct - HD Vest 2015 credit facility, acquisition-related costs (described further under Adjusted EBITDA above), restructuring costs (described further under Adjusted EBITDA above), the impact of noncontrolling interests, the related cash tax impact of those adjustments, and non-cash income taxes. The write-off of debt discount and debt issuance costs on the terminated Notes and the closed TaxAct - HD Vest 2015 credit facility relates to the debt refinancing that occurred in the second quarter of 2017. We exclude the non-cash portion of income taxes because of our ability to offset a substantial portion of our cash tax liabilities by using deferred tax assets, which primarily consist of U.S. federal net operating losses. The majority of these net operating losses will expire, if unutilized, between 2020 and 2024.

We believe that non-GAAP net income (loss) and non-GAAP net income (loss) per share provide meaningful supplemental information to management, investors, and analysts regarding our performance and the valuation of our business by excluding items in the statement of operations that we do not consider part of our ongoing operations or have not been, or are not expected to be, settled in cash. Additionally, we believe that non-GAAP net income (loss) and non-GAAP net income (loss) per share are common measures used by investors and analysts to evaluate our performance and the valuation of our business. Non-GAAP net income (loss) should be evaluated in light of our financial results prepared in accordance with GAAP and should be considered as a supplement to, and not as a substitute for or superior to, GAAP net income (loss). Other companies may calculate non-GAAP net income differently, and, therefore, our non-GAAP net income may not be comparable to similarly titled measures of other companies. A reconciliation of our non-GAAP net income to net income attributable to Blucora, Inc., which we believe to be the most comparable GAAP measure, is presented below:

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| (In thousands, except per share amounts)   | Three months ended    |            | Nine months ended     |            |
|--|-----------------------|------------|-----------------------|------------|
|  | September 30,<br>2017 | 2016       | September 30,<br>2017 | 2016       |
| Net income (loss) attributable to Blucora, Inc.  | \$(16,897)            | \$(54,119) | \$16,991              | \$(45,897) |
| Discontinued operations, net of income taxes   | —                     | 40,528     | —                     | 57,981     |
| Stock-based compensation   | 3,132                 | 3,364      | 8,434                 | 10,616     |
| Amortization of acquired intangible assets   | 8,665                 | 8,346      | 25,337                | 25,694     |
| Impairment of goodwill and intangible assets   | —                     | —          | —                     | —          |
| Accretion of debt discount on the Notes  | —                     | 901        | 1,567                 | 2,749      |
| Accelerated accretion of debt discount on the Notes repurchased  | —                     | —          | —                     | 1,628      |
| Gain on the Notes repurchased  | —                     | —          | —                     | (7,724 )   |
| Write-off of debt discount and debt issuance costs on terminated Notes                                 | —                     | —          | 6,715                 | —          |
| Write-off of debt discount and debt issuance costs on terminated TaxAct - HD Vest 2015 credit facility | —                     | —          | 9,593                 | —          |
| Acquisition-related costs  | —                     | —          | —                     | 391        |
| Restructuring  | 106                   | —          | 2,726                 | —          |
| Impact of noncontrolling interests   | 164                   | 167        | 466                   | 426        |
| Cash tax impact of adjustments to GAAP net income  | (928 )                | (17 )      | (3,334 )              | 244        |
| Non-cash income tax (benefit) expense  | 224                   | (9,312 )   | 6,325                 | 6,460      |
| Non-GAAP net income (loss)   | \$(5,534 )            | \$(10,142) | \$74,820              | \$52,568   |
| Per diluted share:   |                       |            |                       |            |
| Net income (loss) attributable to Blucora, Inc.  | \$(0.37 )             | \$(1.30 )  | \$0.36                | \$(1.08 )  |
| Discontinued operations, net of income taxes   | —                     | 0.97       | —                     | 1.37       |
| Stock-based compensation   | 0.07                  | 0.08       | 0.18                  | 0.25       |
| Amortization of acquired intangible assets   | 0.20                  | 0.21       | 0.55                  | 0.60       |
| Accretion of debt discount on the Notes  | —                     | 0.02       | 0.03                  | 0.06       |
| Accelerated accretion of debt discount on the Notes repurchased  | —                     | —          | —                     | 0.04       |
| Gain on the Notes repurchased  | —                     | —          | —                     | (0.18 )    |
| Write-off of debt discount and debt issuance costs on terminated Notes                                 | —                     | —          | 0.14                  | —          |
| Write-off of debt discount and debt issuance costs on closed TaxAct - HD Vest 2015 credit facility     | —                     | —          | 0.20                  | —          |
| Acquisition-related costs  | —                     | —          | —                     | 0.01       |
| Restructuring  | —                     | —          | 0.06                  | —          |
| Impact of noncontrolling interests   | 0.00                  | 0.00       | 0.01                  | 0.01       |
| Cash tax impact of adjustments to GAAP net income  | (0.02 )               | (0.00 )    | (0.07 )               | 0.01       |
| Non-cash income tax (benefit) expense  | 0.00                  | (0.22 )    | 0.14                  | 0.15       |
| Non-GAAP net income (loss)   | \$(0.12 )             | \$(0.24 )  | \$1.60                | \$1.24     |
| Weighted average shares outstanding used in computing per diluted share amounts                        | 45,459                | 41,635     | 46,813                | 42,329     |

Three months ended September 30, 2017 compared with three months ended September 30, 2016

The decrease in non-GAAP net loss was primarily due to an increase in segment operating loss of \$1.9 million related to our Tax Preparation segment and an increase in segment operating income of \$0.8 million related to our Wealth Management segment. Further contributing to the decrease in non-GAAP net loss was a \$3.4 million decrease in interest expense, amortization of debt issuance costs, and accretion of debt discounts, primarily related to lower balances in the TaxAct - HD Vest 2015 credit facility and the Notes due to pay-off of the entire TaxAct - HD Vest 2015 credit facility and redemption of all of the Notes, respectively, in the second quarter of 2017, and a \$2.0 million decrease in loss on debt extinguishment related to the TaxAct - HD Vest 2015 credit facility. The decreases in non-GAAP net loss were offset by a \$0.3 million decrease in corporate operating expenses not allocated to the segments primarily due to changes in headcount across most functions.

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Nine months ended September 30, 2017 compared with nine months ended September 30, 2016

The increase in non-GAAP net income was primarily due to increases in segment operating income of \$10.4 million and \$4.2 million related to our Tax Preparation and Wealth Management segments, respectively. Further contributing to the

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increase in non-GAAP net income was a \$9.7 million decrease in interest expense, amortization of debt issuance costs, and accretion of debt discounts, primarily related to lower balances in the TaxAct - HD Vest 2015 credit facility and the Notes due to pay-off of the entire credit facility and redemption of all of the Notes, respectively, in the second quarter of 2017, and a \$2.3 million decrease in loss on debt extinguishment related to the TaxAct - HD Vest 2015 credit facility. The increases in non-GAAP net income were offset by a \$3.8 million increase in corporate operating expenses not allocated to the segments primarily due to Strategic Transformation Costs and increased headcount supporting most functions, partially offset by lower stock-based compensation costs, and a \$0.8 million increase in taxes due to an increase in non-GAAP income.

### LIQUIDITY AND CAPITAL RESOURCES

#### Cash, Cash Equivalents, and Short-Term Investments

Our principal source of liquidity is our cash, cash equivalents, and short-term investments. As of September 30, 2017, we had cash and marketable investments of approximately \$78.6 million, consisting entirely of cash and cash equivalents. Our HD Vest broker-dealer subsidiary operates in a highly regulated industry and is subject to various regulatory capital requirements. Failure to meet minimum capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have substantial monetary and non-monetary impacts to HD Vest's operations. As of September 30, 2017, HD Vest met all capital adequacy requirements to which it was subject.

We generally invest our excess cash in high quality marketable investments. These investments generally include debt instruments issued by the U.S. federal government and its agencies, international governments, municipalities and publicly-held corporations, as well as commercial paper, insured time deposits with commercial banks, and money market funds invested in securities issued by agencies of the U.S., although specific holdings can vary from period to period depending upon our cash requirements. Our financial instrument investments held at September 30, 2017 had minimal default risk and short-term maturities.

We have financed our operations primarily from cash provided by operating activities. Accordingly, we believe that the cash generated from our operations and the cash and cash equivalents we have on hand will be sufficient to meet our operating, working capital, and capital expenditure requirements for at least the next 12 months. However, the underlying levels of revenues and expenses that we project may not prove to be accurate. For further discussion of the risks to our business related to liquidity, see the Risk Factor "Existing cash and cash equivalents, short-term investments, and cash generated from operations may not be sufficient to meet our anticipated cash needs for servicing debt, working capital, and capital expenditures" in Part II Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2016.

#### Use of Cash

We may use our cash, cash equivalents, and short-term investments balance in the future on investment in our current businesses, for repayment of debt, for acquiring companies or assets that complement our Wealth Management and Tax Preparation businesses, or for returning capital to shareholders.

On May 22, 2017, we entered into an agreement for a new senior secured credit facility for the purposes of refinancing the TaxAct - HD Vest 2015 credit facility, redeeming the Notes, and providing future working capital and capital expenditure flexibility. Consequently, the TaxAct - HD Vest 2015 credit facility was repaid in full and the commitments under the TaxAct - HD Vest revolving credit facility were terminated. The Blucora senior secured credit facility consists of a committed \$50.0 million revolving credit loan, which includes a letter of credit sub-facility, and a \$375.0 million term loan for an aggregate \$425.0 million credit facility. The final maturity dates of the revolving credit loan and term loan are May 22, 2022 and May 22, 2024, respectively. The interest rates on the revolving credit loan and term loan are variable. The credit facility includes financial and operating covenants with respect to certain ratios, including a net leverage ratio, which are defined further in the credit facility agreement. We were in compliance with these covenants as of September 30, 2017. We initially borrowed \$375.0 million under the term loan. Through the third quarter of 2017, we have made prepayments of \$25.0 million towards the term loan. We have not borrowed any amounts under the revolving credit loan. For further detail, see "Note 7: Debt" of the Notes to Unaudited Condensed Consolidated Financial Statements in Part I Item 1 of this report.

Related to the TaxAct - HD Vest 2015 credit facility, we had repayment activity of \$64.0 million and \$105.0 million during the nine months ended September 30, 2017 and 2016, respectively. Related to the Notes, we repurchased \$28.4 million of the Notes' for cash of \$20.7 million during the nine months ended September 30, 2016. For further detail, see "Note 7: Debt" of the Notes to Unaudited Condensed Consolidated Financial Statements in Part I Item 1 of this report.

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On July 2, 2015, TaxAct acquired SimpleTax, which included additional consideration of up to C\$4.6 million (with C\$ indicating Canadian dollars and amounting to approximately \$3.7 million based on the acquisition-date exchange rate). The related payments are contingent upon product availability and revenue performance over a three-year period and are expected to occur annually over that period. The first payment was made in the first quarter of 2017, and the remaining payments of \$2.7 million are expected through 2019. For further detail, see "Note 6: Fair Value Measurements" of the Notes to Unaudited Condensed Consolidated Financial Statements in Part I Item 1 of this report.

## Contractual Obligations and Commitments

The material events during 2017, outside of the ordinary course of our business, include debt activity (as discussed further in "Note 7: Debt"), payment of a portion of the acquisition-related contingent consideration liability (as discussed further in "Note 6: Fair Value Measurements"), estimated sublease income of \$3.8 million primarily related to the sublease agreement for the Bellevue facility (as discussed further in "Note 5: Restructuring"), purchase commitments with a vendor to provide cloud computation services of \$11.3 million over the next four years, and a commitment to switch to a new clearing firm provider that has been selected by the Company by the third quarter of 2018. Additional information on our Commitments and Contingencies can be found in our Annual Report on Form 10-K for the year ended December 31, 2016.

## Off-balance Sheet Arrangements

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

## Cash Flows

Our cash flows were comprised of the following:

| (In thousands)   | Nine months ended<br>September 30, |           |
|--|------------------------------------|-----------|
|  | 2017                               | 2016      |
| Net cash provided by operating activities from continuing operations           | \$79,230                           | \$88,537  |
| Net cash provided by investing activities from continuing operations           | 3,283                              | 2,225     |
| Net cash used by financing activities from continuing operations               | (58,649 )                          | (124,571) |
| Net cash provided (used) by continuing operations                              | 23,864                             | (33,809 ) |
| Net cash provided by discontinued operations                                   | 1,028                              | 46,589    |
| Effect of exchange rate changes on cash, cash equivalents, and restricted cash | 86                                 | (15 )     |
| Net increase in cash, cash equivalents, and restricted cash                    | \$24,978                           | \$12,765  |

Net cash from the operating activities of continuing operations: Net cash from the operating activities of continuing operations consists of income from continuing operations, offset by certain non-cash adjustments, and changes in our working capital.

Net cash provided by operating activities was \$79.2 million and \$88.5 million for the nine months ended September 30, 2017 and 2016, respectively. The activity in the nine months ended September 30, 2017 included a \$1.2 million working capital contribution and approximately \$78.0 million of income from continuing operations (offset by non-cash adjustments). The working capital contribution primarily related to the impact of TaxAct's seasonality, HD Vest 2016 prepayments, recognition of deferred revenues in our Tax Preparation segment and restructuring activities. The activity in the nine months ended September 30, 2016 included a \$43.8 million working capital contribution and approximately \$44.7 million of income from continuing operations (offset by non-cash adjustments). The working capital contribution was driven by accrued expenses and the impact of excess tax benefits from stock-based activity primarily due to utilizing net operating loss carryforwards from prior years. In addition, in connection with the acquisition of HD Vest, we had placed into escrow \$20.0 million of additional consideration that was contingent upon HD Vest's 2015 earnings performance, and that amount was returned to us in the first quarter of 2016 since it was not achieved (see "Note 3: Business Combinations" of the Notes to Unaudited Condensed Consolidated Financial Statements in Part I Item 1 of this report for additional information).

Net cash from the investing activities of continuing operations: Net cash from the investing activities of continuing operations primarily consists of cash outlays for business acquisitions, transactions (purchases of and proceeds from sales and

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maturities) related to our investments, and purchases of property and equipment. Our investing activities can fluctuate from period-to-period primarily based upon the level of acquisition activity.

Net cash provided by investing activities was \$3.3 million for the nine months ended September 30, 2017 and net cash from investing activities was \$2.3 million for the nine months ended September 30, 2016. The activity in the nine months ended September 30, 2017 primarily consisted of net cash inflows on our available-for-sale investments of \$7.1 million offset by approximately \$3.8 million in purchases of property and equipment. The activity in the nine months ended September 30, 2016 consisted of a \$1.8 million final working capital adjustment on the HD Vest acquisition and \$2.6 million in purchases of property and equipment, offset by net cash inflows on our available-for-sale investments of \$6.7 million.

Net cash from the financing activities of continuing operations: Net cash from the financing activities of continuing operations primarily consists of transactions related to the issuance of debt and stock. Our financing activities can fluctuate from period-to-period based upon our financing needs and market conditions that present favorable financing opportunities.

Net cash used by financing activities was \$58.6 million and \$124.6 million for the nine months ended September 30, 2017 and 2016, respectively. The activity for the nine months ended September 30, 2017 primarily consisted of payments of \$285.0 million in connection with the termination of the TaxAct - HD Vest credit facility, \$172.8 million for redemption in full of the outstanding Notes, \$6.7 million in tax payments from shares withheld for equity awards, and \$0.9 million in contingent consideration paid related to the 2015 acquisition of SimpleTax. These cash outflows were offset by approximately \$367.2 million in proceeds from the senior secured credit facility that was entered into in May 2017 and \$39.7 million in combined proceeds from the issuance of common stock related to stock option exercises and the employee stock purchase plan.

The activity for the nine months ended September 30, 2016 primarily consisted of payments of \$105.0 million on the TaxAct - HD Vest credit facility, the \$20.7 million repurchase of the Notes, and \$1.4 million in tax payments from shares withheld for equity awards. These cash outflows were offset by approximately \$2.5 million in combined proceeds from the issuance of common stock related to stock option exercises and the employee stock purchase plan.

**Critical Accounting Policies and Estimates**

Our critical accounting policies, estimates, and methodologies for the nine months ended September 30, 2017 are consistent with those in Part II Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2016.

**Recent Accounting Pronouncements**

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

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

There have been no material changes to our market risk during the nine months ended September 30, 2017, other than related to borrowings under the senior secured credit facility entered into on May 22, 2017. We borrowed \$375.0 million under the term loan when we entered into the senior secured credit facility, and the interest rate on the term loan is variable at the London Interbank Offered Rate ("LIBOR"), subject to a floor of 1.00%, plus a margin of 3.75%. A hypothetical 100 basis point increase in LIBOR would result in a \$3.5 million increase, based upon our September 30, 2017 principal amount, in our annual interest expense until the scheduled maturity date in 2024. For additional information, see Part II Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2016.

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Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, has evaluated (pursuant to Rule 13a-15(b) of the Securities Exchange Act of 1934), the effectiveness of our disclosure controls and procedures as of September 30, 2017. Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures (as defined in Rule 13a-15(e)) were effective as of September 30, 2017.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the third quarter of 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

See "Note 9: Commitments and Contingencies" of the Notes to Unaudited Condensed Consolidated Financial Statements in Part I Item 1 of this report.

Item 1A. Risk Factors

Refer to Part I Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2016 for a discussion of risk factors relating to the Company's business. The Company believes that there has been no material change in its risk factors as previously disclosed in the Form 10-K other than as follows:

Increased government regulation of our business may harm our operating results.

We are subject to federal, state, and local laws and regulations that affect our activities, including, without limitation, areas of labor, advertising, tax, financial services, data privacy and security requirements, digital content, consumer protection, real estate, billing, promotions, quality of services, intellectual property ownership and infringement, anti-corruption, foreign exchange controls and cash repatriation restrictions, anti-competition, environmental, health, and safety. There have been significant new regulations and heightened focus by the government on many of these areas, as well as in areas such as insurance and healthcare (including, for example, the Affordable Care Act). As we complete our Strategic Transformation and expand our products and services and revise our business models, we may become subject to additional government regulation or increased regulatory scrutiny. Regulators may adopt new laws or regulations or their interpretation of existing laws or regulations may differ from ours as well as the laws of other jurisdictions in which we operate. The Trump Administration has called for a broad review of, and potentially significant changes to, U.S. fiscal and tax laws and regulations. These changes may include comprehensive tax reform as well as the rolling back or repeal of various financial regulations, including the Department of Labor (the "DOL") fiduciary rule (the "Fiduciary Rule") and the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"). We cannot predict whether, when or to what extent new U.S. federal laws, regulations, interpretations or rulings will be issued, nor is the impact of such changes on our Tax Preparation or Wealth Management businesses clear. It is possible that some policies adopted by the Trump administration will negatively affect us.

These regulatory requirements could impose significant limitations, require changes to our business, require notification to customers, clients, or employees of a security breach, restrict our use of personal information, or cause changes in customer purchasing behavior that may make our business more costly, less efficient, or impossible to conduct, and may require us to modify our current or future products or services, which may materially harm our future financial results.

The tax preparation industry continues to receive heightened attention from federal and state governments. New legislation, regulation, public policy considerations, changes in the cybersecurity environment, litigation by the government or private entities, or new interpretations of existing laws may result in greater oversight of the tax preparation industry, restrict the types of products and services that we can offer or the prices we can charge, or otherwise cause us to change the way we operate our Tax Preparation business or offer our tax preparation products

and services. We may not be able to respond quickly to such regulatory, legislative and other developments, and these changes may in turn increase our cost of doing business and limit our revenue opportunities. In addition, if our practices are not consistent with new interpretations of existing laws, we may become subject to lawsuits, penalties, and other liabilities that did not previously apply. We are also required to comply with a variety of state revenue agency standards in order to successfully operate our tax preparation and electronic filing

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services. Changes in state-imposed requirements by one or more of the states, including the required use of specific technologies or technology standards, may significantly increase the costs of providing those services to our customers and may prevent us from delivering a quality product to our customers in a timely manner and at an acceptable price.

Our Wealth Management business is subject to certain additional financial industry regulations and supervision, including by the Securities and Exchange Commission, the DOL, the Financial Industry Regulatory Authority, state securities and insurance regulators, and other regulatory authorities. Our failure to comply with the laws, rules, and regulations promulgated by federal regulatory bodies and the regulatory authorities in each of the states and other jurisdictions in which we do business could result in the restriction of the ongoing conduct or growth, or even liquidation of, parts of our business and otherwise materially impact our financial condition, results of operations, and liquidity. These regulatory authorities continuously review legislative and regulatory initiatives and may adopt new or revised laws, regulations, or interpretations, and there can also be no assurance that other federal or state agencies will not attempt to further regulate our business. The Dodd-Frank Act, enacted into law in 2010, called for sweeping changes in the supervision and regulations of the wealth management industry. Regulators implementing the Dodd-Frank Act have adopted, proposed to adopt, and may in the future adopt regulations that could impact the manner in which we will market HD Vest products and services, manage HD Vest operations, and interact with regulators. As noted above, the Trump Administration has called for a broad review of, and potentially significant changes to, U.S. fiscal laws and regulations which may include the rolling back or even repeal of certain financial regulations, including but not limited to the Dodd-Frank Act. If such changes are enacted, they could have a negative impact on our business.

In April 2016, the DOL published the Fiduciary Rule and two new administrative class exemptions from the prohibited transaction exemptions, as well as amendments to previously granted exemptions under Employee Retirement Income Security Act of 1974, as amended ("ERISA"), which redefines the term "fiduciary" and who may be considered a fiduciary under ERISA, i.e., financial institutions and financial advisors, and specifies how such fiduciaries must provide investment advice to individual retirement accounts or other accounts, the assets of which are subject to section 4975 of the Internal Revenue Code (collectively, the "Covered Accounts"). Over the past several quarters, Covered Accounts made up approximately half of HD Vest's assets under administration. The new Fiduciary Rule focuses on conflicts of interest related to investment recommendations made by financial institutions and financial advisors to clients holding Covered Accounts. The rules bring virtually all of the investment products and services HD Vest currently provides to Covered Account owners within the scope of ERISA.

On February 3, 2017, President Trump issued a memorandum directing the Secretary of Labor to prepare an updated analysis of the likely impact of the Fiduciary Rule on investors' access to retirement information and financial advice. As a result of the President's memorandum, the DOL issued a final rule extending the applicability date of the Fiduciary Rule by 60 days, from April 10, 2017 to June 9, 2017, and requiring investment advice fiduciaries relying on certain prohibited transaction exemptions to adhere only to the Impartial Conduct Standards as conditions of those exemptions during a transition period from June 9, 2017 to January 1, 2018 (the "Transition Period").

On May 22, 2017, the DOL issued a temporary enforcement policy covering the Transition Period, during which the DOL will not pursue claims against investment advice fiduciaries who are working diligently and in good faith to comply with their fiduciary duties and to meet the conditions of the prohibited transaction exemptions, or otherwise treat investment advice fiduciaries as being in violation of their fiduciary duties. The Treasury Department and IRS confirmed a similar enforcement policy covering excise taxes and related reporting obligations with respect to transactions covered by the DOL's enforcement policy.

On August 31, 2017, the DOL issued a proposed rule to delay the effective date of the Fiduciary Rule's transaction exemptions to July 1, 2019. The purpose of the proposed delay is to permit the DOL to complete the analysis required

by the President's memorandum. The comment period for the proposed rule closed on September 15, 2017 but the DOL had not issued a final rule as of the date of this report. In the proposed rule, the DOL solicited comments on whether this delay should be extended beyond July 1, 2019 or made contingent upon other events, such as the conclusion of any additional substantive rulemaking affecting the Fiduciary Rule or the transaction exemptions. The proposed rule would also extend the Transition Period, and continue the DOL's previously announced temporary enforcement policy, through the pendency of any delay. The DOL also solicited comments about whether application of the enforcement policy should be made contingent on any particular factors, such as a firm's continued good faith efforts to comply with the Fiduciary Rule. We cannot predict what the DOL's final rule will provide on these matters.

The Fiduciary Rule, should it remain unchanged, will require HD Vest to either: (1) subject Covered Accounts to a level fee arrangement under which (a) the firm and affiliates receive a fee based on a fixed percentage of the value of assets in the account and (b) no ERISA prohibited transactions are otherwise implicated; or (2) comply with one of the DOL prohibited

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transaction exemptions that impose significant new and additional compliance and disclosure requirements, and restrict the manner in which HD Vest can earn revenue and pay its financial advisors.

Accordingly, it is uncertain whether the Fiduciary Rule will become applicable, when it will be applicable, and what form any final rule might take after the required review is completed. If the Fiduciary Rule is applied in its current form, it will impact how HD Vest (i) designs investment products and services for Covered Accounts, (ii) receives fees, (iii) compensates its financial advisors, and (iv) recruits and retains financial advisors. Additionally, the Fiduciary Rule will require HD Vest to change systems and implement new compliance programs and client disclosures. In addition, if HD Vest relies on the new Best Interest Contract prohibited transaction exemption, the firm will be required to adopt new "impartial conduct" policies and procedures and make contractual representations and warranties to clients that HD Vest will comply with such policies and procedures and abide by fiduciary standards. These requirements, coupled with ambiguity inherent in the Fiduciary Rule, will likely lead to increased regulatory scrutiny and litigation related to the provision of investment advice to Covered Accounts and ERISA investors. Our management has devoted and, if the Fiduciary Rule is applied in its current form, expects to continue to devote substantial time and resources to assess the new rule, implement required policies and procedures, and develop and execute a business strategy in light of the rule, diminishing the firm's ability to focus on other initiatives. Depending on the scope of required changes, if HD Vest is not able to complete necessary modifications to its business practices and operational systems by the applicability date, its ability to process business for Covered Accounts will be negatively impacted. As a result, the Fiduciary Rule and related litigation and regulatory scrutiny could materially and adversely impact our financial condition and results of operations. In addition, investigations, claims, or other actions or proceedings by regulators or third-parties with respect to our compliance with the Fiduciary Rule may also have a material adverse effect on our financial condition and results of operations.

Our ability to comply with all applicable laws, rules and regulations, and interpretations is largely dependent on our establishment and maintenance of compliance, audit, and reporting systems and procedures, as well as our ability to attract and retain qualified compliance, audit, and risk management personnel. While we have adopted systems, policies, and procedures reasonably designed to comply or facilitate compliance with all applicable laws, rules and regulations, and interpretations, these systems, policies, and procedures may not be fully effective. There can be no assurance that we will not be subject to investigations, claims, or other actions or proceedings by regulators or third-parties with respect to our past or future compliance with applicable laws, rules, and regulations, the outcome of which may have a material adverse effect on our financial condition and results of operations.

HD Vest distributes its products and services through financial advisors who affiliate with the firm as independent contractors. There can be no assurance that legislative, judicial, or regulatory (including tax) authorities will not introduce proposals or assert interpretations of existing rules and regulations that would change, or at least challenge, the classification of our financial advisors as independent contractors. Although we believe we have properly classified our advisors as independent contractors, the U.S. Internal Revenue Service or other U.S. federal or state authorities or similar authorities may determine that we have misclassified our advisors as independent contractors for employment tax or other purposes and, as a result, seek additional taxes from us or attempt to impose fines and penalties, which could have a material adverse effect on our business model, financial condition, and results of operations.

### Risks Related to our Financing Arrangements

We incurred debt in connection with the repayment of our credit facility used for the acquisition of HD Vest and the redemption of our convertible senior notes and may incur future debt, which may materially and adversely affect our financial condition and future financial results.

On May 22, 2017, we borrowed \$375.0 million in the form of a term loan under a Credit Agreement to which we, and most of our direct and indirect domestic subsidiaries (in their capacity as guarantors), are parties. The final maturity date of the term loan is May 22, 2024. The proceeds of the term loan were used to repay in full the credit facility used for the acquisition of HD Vest and to redeem in full our convertible senior notes. We may also borrow an additional

amount under this Credit Agreement of up to \$50.0 million under a revolving credit arrangement.

This borrowing may materially and adversely affect our financial condition and future financial results by, among other things:

increasing our vulnerability to downturns in our businesses, to competitive pressures, and to adverse economic and industry conditions;

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requiring the dedication of a portion of our expected cash from operations to service the indebtedness, thereby reducing the amount of expected cash flow available for other purposes, including capital expenditures and complementary acquisitions;

increasing our interest payment obligations in the event that interest rates rise; and

limiting our flexibility in planning for, or reacting to, changes in our businesses and our industries.

Our Credit Agreement imposes restrictions on us, including restrictions on our ability to create liens, incur indebtedness and make investments. In addition, our Credit Agreement includes covenants, the breach of which may cause the outstanding indebtedness to be declared immediately due and payable. This borrowing, and our ability to repay it, may also negatively impact our ability to obtain additional financing in the future and may affect the terms of any such financing.

In addition, we or our subsidiaries, may incur additional debt in the future. Any additional debt may result in risks similar to those discussed above or in other risks specific to the credit agreements entered into for those debts.

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

The Company moved its headquarters moved to Irving, Texas from Bellevue, Washington in June 2017, and Eric M. Emans, the Company's Chief Financial Officer, has decided not to relocate with the Company. Consequently, on October 23, 2017, Mr. Emans informed the Company that he intends to resign effective as of November 1, 2017. Upon his termination of employment, Mr. Emans will receive severance compensation in accordance with his Amended and Restated Employment Agreement, which was filed as Exhibit 10.4 to the Company's Form 10-Q on October 27, 2016.

In connection with this announcement, on October 25, 2017 the Company entered into a Consulting Agreement with Mr. Emans that will become effective on November 2, 2017. Pursuant to the Consulting Agreement, Mr. Emans will serve as a consultant to the Company to assist with the Chief Financial Officer transition and other matters that may be requested by the Company and will receive \$50,500 per month through February 28, 2018 when the Consulting Agreement terminates. In addition, Mr. Emans will receive \$550,000 upon termination or expiration of the Consulting Agreement. The Consulting Agreement also contains a customary confidentiality provision and customary covenants regarding non-competition, non-recruitment, non-solicitation and non-disparagement. The foregoing description of Mr. Emans' Consulting Agreement does not purport to be complete and is qualified in its entirety by the Consulting Agreement, a copy of which is filed as Exhibit 10.2 to this Quarterly Report on Form 10-Q and is incorporated by reference herein.

Following Mr. Emans' notice of resignation, on October 23, 2017, the Board of Directors of the Company appointed John Palmer, the Company's Vice President - Accounting, to serve as its Principal Accounting Officer and its Principal Financial Officer, effective as of Mr. Emans' departure from the Company on November 1, 2017 and continuing until a new Chief Financial Officer has been hired. In connection with Mr. Palmer's appointment as Principal Accounting and Financial Officer, Mr. Palmer will receive a cash bonus of \$50,000 that will be paid upon the earlier of (i) the hiring of a new Chief Financial Officer or (ii) March 31, 2018. If a new Chief Financial Officer is not hired prior to March 31, 2018, Mr. Palmer will receive an additional \$10,000 per month until the new Chief Financial Officer is hired. There is no family relationship between Mr. Palmer and any director, executive officer, or person chosen by the Company to become a director or executive officer. There are no transactions to which the Company or any of its subsidiaries is a party and in which Mr. Palmer has a direct or indirect material interest subject to disclosure under Item 404(a) of Regulation S-K, and there are no arrangements or understandings between Mr. Palmer and any other persons pursuant to which he was selected to serve as the Company's Principal Accounting and Financial Officer.



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Mr. Palmer, 51, has served as the Company's Vice President - Accounting since February 2017. Prior to joining the Company, Mr. Palmer served as Vice President and Chief Accounting Officer at Sizmek, Inc., a global technology company that provides technology-enabled advertising services, from the time it was spun-off from Digital Generation, Inc. in February 2014 until February 2017. Mr. Palmer served as Vice President and Controller at Digital Generation, Inc. from March 2003 to February 2014. Prior to that, Mr. Palmer held a variety of controller positions for technology companies, including Entrust Technologies, Inc. and Nortel Networks, Inc. He began his career working at each of KPMG and Ernst & Young.

## Item 6. Exhibits

| Exhibit Number | Exhibit Description  | Form | Date of First Filing | Exhibit Number | Filed Herewith |
|----------------|--|------|----------------------|----------------|----------------|
| 10.1           | <u>First Amendment to Employment Agreement dated September 5, 2017 between Blucora, Inc. and John S. Clendening</u>  | 8-K  | September 5, 2017    | 10.1           |                |
| 10.2           | <u>Consulting Agreement Dated October 25, 2017 between Blucora, Inc. and Eric M. Emans</u>   |      |                      |                | X              |
| 31.1           | <u>Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>  |      |                      |                | X              |
| 31.2           | <u>Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>  |      |                      |                | X              |
| 32.1           | <u>Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>  |      |                      |                | X              |
| 32.2           | <u>Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>  |      |                      |                | X              |
| 101            | The following financial statements from the Company's 10-Q for the fiscal quarter ended September 30, 2017, formatted in XBRL: (i) Unaudited Condensed Consolidated Balance Sheets, (ii) Unaudited Condensed Consolidated Statements of Operations, (iii) Unaudited Condensed Consolidated Statements of Cash Flows, and (iv) Notes to Unaudited Condensed Consolidated Financial Statements |      |                      |                | X              |

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SIGNATURES

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

BLUCORA, INC.

By: /s/ Eric M. Emans  
Eric M. Emans  
Chief Financial Officer  
(On behalf of the Registrant and as Principal Financial Officer)

Date: October 26, 2017

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