

# BLUCORA, INC.

## FORM 10-Q (Quarterly Report)

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SIC Code 7374 - Computer Processing and Data Preparation and Processing Services  
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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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**FORM 10-Q**

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

For the quarterly period ended September 30, 2016  
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

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**BLUCORA, INC.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**91-1718107**  
(I.R.S. Employer  
Identification No.)

**10900 NE 8th Street, Suite 800**  
**Bellevue, Washington**  
(Address of principal executive offices)

**98004**  
(Zip Code)

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

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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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer  Accelerated filer

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

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.

<u>Class</u>	<u>Outstanding at</u> <u>October 20, 2016</u>
Common Stock, Par Value \$0.0001	41,719,656

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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, 2016	December 31, 2015
<b><u>ASSETS</u></b>		
Current assets:		
Cash and cash equivalents	\$ 71,165	\$ 55,473
Cash segregated under federal or other regulations	630	3,557
Available-for-sale investments	4,492	11,301
Accounts receivable, net of allowance	7,076	7,884
Commissions receivable	15,294	16,328
Other receivables	6,827	24,407
Prepaid expenses and other current assets, net	4,059	10,062
Current assets of discontinued operations	70,432	211,663
Total current assets	179,975	340,675
Long-term assets:		
Property and equipment, net	10,711	11,308
Goodwill, net	549,582	548,959
Other intangible assets, net	370,640	396,295
Other long-term assets	3,380	2,311
Total long-term assets	934,313	958,873
Total assets	\$ 1,114,288	\$ 1,299,548
<b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>		
Current liabilities:		
Accounts payable	\$ 5,840	\$ 4,689
Commissions and advisory fees payable	15,382	16,982
Accrued expenses and other current liabilities	11,446	13,006
Deferred revenue	9,139	11,521
Current portion of long-term debt, net	3,200	31,631
Current liabilities of discontinued operations	37,539	88,275
Total current liabilities	82,546	166,104
Long-term liabilities:		
Long-term debt, net	283,801	353,850
Convertible senior notes, net	163,024	185,918
Deferred tax liability, net	104,236	103,520
Deferred revenue	2,479	1,902
Other long-term liabilities	11,233	10,932
Total long-term liabilities	564,773	656,122
Total liabilities	647,319	822,226
Redeemable noncontrolling interests	15,464	15,038
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Common stock, par \$0.0001—authorized shares, 900,000; issued and outstanding shares, 41,711 and 40,954	4	4
Additional paid-in capital	1,525,267	1,490,405
Accumulated deficit	(1,073,495)	(1,027,598)
Accumulated other comprehensive loss	(271)	(527)
Total stockholders' equity	451,505	462,284
Total liabilities and stockholders' equity	\$ 1,114,288	\$ 1,299,548



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

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
<b>Revenue:</b>				
Wealth management services revenue	\$ 80,088	\$ —	\$ 233,496	\$ —
Tax preparation services revenue	3,149	2,875	135,614	114,843
Total revenue	83,237	2,875	369,110	114,843
<b>Operating expenses:</b>				
Cost of revenue:				
Wealth management services cost of revenue	54,921	—	158,213	—
Tax preparation services cost of revenue	1,319	1,170	6,549	4,680
Amortization of acquired technology	49	1,911	765	5,636
Total cost of revenue	56,289	3,081	165,527	10,316
Engineering and technology	4,588	1,251	12,842	3,471
Sales and marketing	11,965	2,113	75,715	42,824
General and administrative	11,638	8,895	35,899	23,694
Depreciation	968	394	2,906	1,101
Amortization of other acquired intangible assets	8,297	3,195	24,929	9,566
Total operating expenses	93,745	18,929	317,818	90,972
Operating income (loss)	(10,508)	(16,054)	51,292	23,871
Other loss, net	(11,453)	(3,080)	(29,883)	(9,109)
Income (loss) from continuing operations before income taxes	(21,961)	(19,134)	21,409	14,762
Income tax benefit (expense)	8,537	6,926	(8,899)	(5,144)
Income (loss) from continuing operations	(13,424)	(12,208)	12,510	9,618
Discontinued operations, net of income taxes	(40,528)	1,597	(57,981)	7,122
Net income (loss)	(53,952)	(10,611)	(45,471)	16,740
Net income attributable to noncontrolling interests	(167)	—	(426)	—
Net income (loss) attributable to Blucora, Inc.	\$ (54,119)	\$ (10,611)	\$ (45,897)	\$ 16,740
Net income (loss) per share attributable to Blucora, Inc. - basic:				
Continuing operations	\$ (0.33)	\$ (0.30)	\$ 0.29	\$ 0.23
Discontinued operations	(0.97)	0.04	(1.40)	0.18
Basic net income (loss) per share	\$ (1.30)	\$ (0.26)	\$ (1.11)	\$ 0.41
Net income (loss) per share attributable to Blucora, Inc. - diluted:				
Continuing operations	\$ (0.33)	\$ (0.30)	\$ 0.29	\$ 0.23
Discontinued operations	(0.97)	0.04	(1.37)	0.17
Diluted net income (loss) per share	\$ (1.30)	\$ (0.26)	\$ (1.08)	\$ 0.40
Weighted average shares outstanding:				
Basic	41,635	40,950	41,404	40,952
Diluted	41,635	40,950	42,329	41,911
<b>Other comprehensive income (loss):</b>				
Net income (loss)	\$ (53,952)	\$ (10,611)	\$ (45,471)	\$ 16,740
Unrealized gain (loss) on available-for-sale investments, net of tax	—	111	10	(149)
Foreign currency translation adjustment	(77)	(122)	246	(122)
Reclassification adjustment for realized (gain) loss on available-for-sale investments, net of tax, included in net income as Other loss, net	—	(68)	—	349
Reclassification adjustment for other-than-temporary impairment loss on available-for-sale investments, included in net income as Other loss, net	—	—	—	964
Other comprehensive income (loss)	(77)	(79)	256	1,042
Comprehensive income (loss)	(54,029)	(10,690)	(45,215)	17,782
Comprehensive income attributable to noncontrolling interests	(167)	—	(426)	—
Comprehensive income (loss) attributable to Blucora, Inc.	\$ (54,196)	\$ (10,690)	\$ (45,641)	\$ 17,782

See accompanying notes to Unaudited Condensed Consolidated Financial Statements.



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

	Nine months ended September 30,	
	2016	2015
<b>Operating Activities:</b>		
Net income (loss)	\$ (45,471)	\$ 16,740
Less: Discontinued operations, net of income taxes	(57,981)	7,122
Net income from continuing operations	12,510	9,618
Adjustments to reconcile net income from continuing operations to net cash from operating activities:		
Stock-based compensation	10,616	5,974
Depreciation and amortization of acquired intangible assets	29,080	16,863
Excess tax benefits from stock-based award activity	(21,369)	(28,632)
Deferred income taxes	(12,484)	(25,194)
Amortization of premium on investments, net	164	1,250
Amortization of debt issuance costs	1,440	842
Accretion of debt discounts	3,599	2,873
Gain on debt extinguishment and modification expense	(641)	—
Revaluation of acquisition-related contingent consideration liability	391	—
Other	18	60
Cash provided (used) by changes in operating assets and liabilities:		
Cash segregated under federal or other regulations	2,927	—
Accounts receivable	793	136
Commissions receivable	1,034	—
Other receivables	19,656	1,166
Prepaid expenses and other current assets	6,003	4,665
Other long-term assets	(1,174)	(63)
Accounts payable	1,151	4,930
Commissions and advisory fees payable	(1,600)	—
Deferred revenue	(1,805)	(1,691)
Accrued expenses and other current and long-term liabilities	19,786	28,149
Net cash provided by operating activities from continuing operations	70,095	20,946
<b>Investing Activities:</b>		
Business acquisition, net of cash acquired	(1,788)	(1,740)
Purchases of property and equipment	(2,648)	(866)
Proceeds from sales of investments	—	16,507
Proceeds from maturities of investments	11,808	210,699
Purchases of investments	(5,147)	(209,112)
Net cash provided by investing activities from continuing operations	2,225	15,488
<b>Financing Activities:</b>		
Repurchase of convertible notes	(20,667)	—
Repayment of credit facilities	(105,000)	(51,940)
Stock repurchases	—	(7,068)
Excess tax benefits from stock-based award activity	21,369	28,632
Proceeds from stock option exercises	1,141	2,374
Proceeds from issuance of stock through employee stock purchase plan	1,402	1,193
Tax payments from shares withheld for equity awards	(1,447)	(1,193)
Net cash used by financing activities from continuing operations	(103,202)	(28,002)
Net cash provided (used) by continuing operations	(30,882)	8,432
Net cash provided by operating activities from discontinued operations	10,836	6,138
Net cash provided (used) by investing activities from discontinued operations	43,230	(206)
Net cash used by financing activities from discontinued operations	(7,477)	(5,020)
Net cash provided by discontinued operations	46,589	912



Effect of exchange rate changes on cash and cash equivalents	(15)	(6)
Net increase in cash and cash equivalents	15,692	9,338
Cash and cash equivalents, beginning of period	55,473	41,968
Cash and cash equivalents, end of period	\$ 71,165	\$ 51,306
Cash paid for income taxes from continuing operations	\$ 2,079	\$ 1,229
Cash paid for interest from continuing operations	\$ 23,455	\$ 4,667

See accompanying notes to Unaudited Condensed Consolidated Financial Statements.

**BLUCORA, INC.**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1: The Company and Basis of Presentation**

*Description of the business:* Blucora, Inc. (the “**Company**” or “**Blucora**”) operates two primary 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**”), which the Company acquired on December 31, 2015. HD Vest is included in Blucora’s results of operations beginning on January 1, 2016. HD Vest provides wealth management solutions for financial advisors. 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](http://www.TaxAct.com).

The Company also operated an internet Search and Content business and continues to operate an E-Commerce business. The Search and Content business operated through the InfoSpace LLC subsidiary (“**InfoSpace**”) and provided search services to users of its owned and operated and distribution partners’ web properties, as well as online content through HowStuffWorks (“**HSW**”). The E-Commerce business consists of the operations of Monoprice, Inc. (“**Monoprice**”) and sells self-branded electronics and accessories to both consumers and businesses primarily through its website [www.monoprice.com](http://www.monoprice.com).

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 intention to divest the Search and Content and E-Commerce businesses (see “Note 4: Discontinued Operations”). Accordingly, the financial condition, results of operations, cash flows, and the notes to financial statements reflect the Search and Content and E-Commerce businesses as discontinued operations for all periods presented. Unless otherwise specified, disclosures in these consolidated financial statements reflect continuing operations.

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.

*Segments:* The Company has two reportable segments: the Wealth Management segment, which is the HD Vest business, and the Tax Preparation segment, which is the TaxAct business. The former Search and Content and E-Commerce segments are included in discontinued operations. Unless the context indicates otherwise, the Company uses the term “**Wealth Management**” to represent services sold through the HD Vest business, the term “**Tax Preparation**” to represent services and software sold through the TaxAct business, the term “**Search and Content**” to represent search and content services, and the term “**E-Commerce**” to represent products sold through the Monoprice business (see “Note 11: Segment Information”).

*Principles of consolidation:* The consolidated financial statements include the accounts of the Company and its subsidiaries. Intercompany accounts and transactions have been eliminated.

*Correction of an immaterial error:* During the third quarter of 2016, the Company identified an error in which the Company inappropriately recognized a tax benefit from the impairment of the net assets held-for-sale during the second quarter of 2016. As the impairment related to goodwill included in the disposal group (which is not deductible for income tax purposes), no tax benefit should have been recorded during the quarter. This resulted in the overstatement of net assets held-for-sale of \$6.7 million as of June 30, 2016 and an understatement of the loss from discontinued operations of \$6.7 million or \$0.16 per share for the three months ended June 30, 2016. The Company has evaluated the quantitative and qualitative considerations of this error to both the second and third quarters of 2016 and concluded that the impacts were not material to its consolidated financial statements for either of these periods. There was no impact to the net loss attributable to Blucora, Inc. for the nine months ended September 30, 2016 since this was an interim period adjustment that was corrected in the same fiscal year. In addition, there was no impact to income (loss) from continuing operations, income (loss) per share from continuing operations, or net cash provided by continuing or discontinued operations for either period.

*Reclassification:* The Company reclassified certain amounts related to discontinued operations. See “Note 4: Discontinued Operations” for additional information.

*Use of estimates:* The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“**GAAP**”) requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses, and disclosure of contingencies. Estimates include those used for impairment of goodwill and other intangible assets, useful lives of other intangible assets, acquisition accounting, valuation of investments,

revenue recognition, the estimated allowance for sales returns and doubtful accounts, internally developed software, accrued contingencies, stock option valuation, and valuation allowance for deferred tax assets. Actual amounts may differ from estimates.

*Net capital and regulatory requirements:* The Company's subsidiary, HD Vest, 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, 2016, HD Vest met all capital adequacy requirements to which it was subject.

*Seasonality:* Blucora's Tax Preparation segment is highly seasonal, with a significant portion of its annual revenue earned in the first four months of the Company's fiscal year. During the third and fourth quarters, the Tax Preparation segment typically reports losses because revenue from the segment is minimal while core operating expenses continue.

## **Note 2: Summary of Significant Accounting Policies**

*Interim financial information:* The accompanying consolidated financial statements have been prepared by the Company under the rules and regulations of the Securities and Exchange Commission (the "*SEC*") for interim financial reporting. These consolidated financial statements are unaudited and, in management's opinion, include all adjustments, consisting of normal recurring adjustments and accruals, necessary for a fair presentation of the consolidated financial position, results of operations, and cash flows for the periods presented. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been omitted in accordance with the rules and regulations of the SEC. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes in Part II Item 8 of the Company's Annual Report on Form 10-K for the year ended December 31, 2015. Interim results are not necessarily indicative of results for a full year.

*Cash segregated under federal or other regulations:* Cash segregated under federal and other regulations is held in a special bank account for the exclusive benefit of the Company's wealth management customers.

*Short-term investments:* The Company principally invests its available cash in fixed-rate debt securities. Fixed-rate debt securities 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 the Company's cash requirements. Such investments are included in "Cash and cash equivalents" and "Available-for-sale investments" on the consolidated balance sheets and reported at fair value with unrealized gains and losses included in "Accumulated other comprehensive loss" on the consolidated balance sheets. Amounts reclassified out of comprehensive income into net income are determined on the basis of specific identification.

The Company reviews its available-for-sale investments for impairment and classifies the impairment of any individual available-for-sale investment as either temporary or other-than-temporary. The differentiating factors between temporary and other-than-temporary impairments are primarily the length of the time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. An impairment classified as temporary is recognized in "Accumulated other comprehensive loss" on the consolidated balance sheets. An impairment classified as other-than-temporary is recognized in "Other loss, net" on the consolidated statements of comprehensive income.

*Business combinations and intangible assets including goodwill:* The Company accounts for business combinations using the acquisition method. The acquisition-date fair value of total consideration includes cash and contingent consideration. Since the Company is contractually obligated to pay contingent consideration upon the achievement of specified objectives, a contingent consideration liability is recorded at the acquisition date. The Company reviews its assumptions related to the fair value of the contingent consideration liability each reporting period and, if there are material changes, revalues the contingent consideration liability based on the revised assumptions, until such contingency is satisfied through payment upon the achievement of the specified objectives. 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.

Goodwill is calculated as the excess of the acquisition-date fair value of total consideration over the acquisition-date fair value of net assets, including the amount assigned to identifiable intangible assets, and is assigned to reporting units that are

expected to benefit from the synergies of the business combination as of the acquisition date. Reporting units are consistent with reportable segments and include the former Search and Content and E-Commerce segments. Identifiable intangible assets with finite lives are amortized over their useful lives on a straight-line basis, except for advisor relationships which are amortized proportional to expected revenue. Acquisition-related costs, including advisory, legal, accounting, valuation, and other similar costs, are expensed in the periods in which the costs are incurred. The results of operations of acquired businesses are included in the consolidated financial statements from the acquisition date.

*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.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Cash equivalents and debt securities are classified within Level 2 of the fair value hierarchy because the Company values its cash equivalents and debt securities utilizing market observable inputs. The contingent consideration liability is related to the Company's acquisition of SimpleTax Software Inc. ( "*SimpleTax*" ) and is classified within Level 3 of the fair value hierarchy because the Company values the liability 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 Company accounts for contingent consideration in accordance with applicable accounting guidance pertaining to business combinations, as disclosed in the accounting policy "Business combinations and intangible assets including goodwill."

*Redeemable noncontrolling interests* : Noncontrolling interests that are redeemable at the option of the holder and not solely within the control of the issuer are classified outside of stockholders' equity. In connection with the acquisition of HD Vest, management of that business has retained an ownership interest. The Company is party to put and call arrangements with respect to these interests. These put and call arrangements allow HD Vest management to require the Company to purchase their interests or allow the Company to acquire such interests, respectively. The put arrangements do not meet the definition of a derivative instrument as the put agreements do not provide for net settlement. To the extent that the redemption value of these interests exceeds the value determined by adjusting the carrying value for the subsidiary's attribution of net income (loss), the value of such interests is adjusted to the redemption value with a corresponding adjustment to additional paid-in capital.

*Wealth management revenue recognition* : Wealth management revenue consists primarily of commission revenue, advisory revenue, asset-based revenue, and transaction and fee revenue. Revenue is recognized in the periods in which the related services are performed, provided that persuasive evidence of an arrangement exists, the fee is fixed or determinable, and collectibility is reasonably assured. Payments received by the Company in advance of the performance of service are deferred and recognized as revenue when earned.

The Company considers the nature of its contractual arrangements in determining whether to recognize certain types of wealth management revenue, primarily commission revenue and advisory revenue, on the basis of the gross amount billed or net amount retained after payments are made to providers of certain services related to the product or service offering. The main factors that the Company uses to determine whether to record revenue on a gross or net basis are whether:

- the Company is primarily responsible for the service to the financial advisor and their client;
- the Company has discretion in establishing fees paid by the client and fees due to the third-party service provider; and
- the Company is involved in the determination of product or service specifications.

When client fees include a portion of charges that are paid to another party and the Company is primarily responsible for providing the service to the client, revenue is recognized on a gross basis in an amount equal to the fee paid by the client. The cost of revenue recognized is the amount due to the other party. In instances in which another party is primarily responsible for providing the service to the client, revenue is recognized in the net amount retained by the Company. The portion of the fees that are collected from the client by the Company and remitted to the other party are considered pass-through amounts and are not a component of revenue or cost of revenue.

Further details of wealth management revenue are as follows:

- *Commission revenue* - Commissions represent amounts generated by HD Vest's financial advisors for their clients' purchases and sales of securities and various investment products. The Company generates two types of commissions: transaction-based sales commissions that occur at the point of sale, as well as trailing commissions for which the Company provides ongoing account support to clients of its financial advisors.

The Company records transaction-based sales commission revenue on a trade-date basis, which is when the Company's performance obligations in generating the commissions have been substantially completed. Trailing commission revenue is based on a percentage of the current market value of clients' investment holdings in trail-eligible assets and recognized over the period during which services are performed. Since trailing commission revenue is generally paid in arrears, the Company estimates it based on a number of factors, including stock market index levels and the amount of trailing commission revenues received in prior periods.

A substantial portion of commission revenue is ultimately paid to financial advisors. The Company records an estimate for transaction-based commissions payable based upon the payout rate of the financial advisor generating the accrued commission revenue. The Company records an estimate for trailing commissions payable based upon historical payout ratios. Such amounts are recorded as "Commissions and advisory fees payable" on the consolidated balance sheets and "Wealth management services cost of revenue" on the consolidated statements of comprehensive income.

- *Advisory revenue* - Advisory revenue includes fees charged to clients in advisory accounts where HD Vest is the Registered Investment Advisor ("RIA"). These fees are based on the value of assets within these advisory accounts. A substantial portion of these advisory fees are paid to the related financial advisor and these payments are classified as "Wealth management services cost of revenue" in the consolidated statements of comprehensive income.
- *Asset-based revenue* - Asset-based revenue primarily includes fees from financial product manufacturer sponsorship programs and cash sweep programs and are recognized ratably over the period in which services are provided.
- *Transaction and fee revenue* - The Company charges fees for executing certain transactions in client accounts. Transaction-related charges are recognized on a trade-date basis. Other fees relate to services provided and other account charges as generally outlined in agreements with financial advisors, clients, and financial institutions. Such fees are recognized as services are performed or as earned, as applicable.

*Foreign currency:* The financial position and operating results of the Company's foreign operations are consolidated using the local currency as the functional currency. Assets and liabilities recorded in local currencies are translated at the exchange rate on the balance sheet date, while revenues and expenses are translated at the average exchange rate for the applicable period. Translation adjustments resulting from this process are recorded in "Accumulated other comprehensive loss" on the consolidated balance sheets. The gain or loss on foreign currency transactions, calculated as the difference between the historical exchange rate and the exchange rate at the applicable measurement date, are recorded in "Other loss, net" on the consolidated statements of comprehensive income.

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

In May 2014, the FASB issued guidance codified in ASC 606, "Revenue from Contracts with Customers," which amends the guidance in former ASC 605 "Revenue Recognition." The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This will be achieved in a five-step process. Enhanced disclosures also will be required. This guidance is effective on a retrospective basis--either to each reporting period presented or with the cumulative effect of initially applying this guidance recognized at the date of initial application--for annual reporting periods, including interim reporting periods within those annual reporting periods, beginning after December 15, 2017. Earlier adoption is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company currently is evaluating the impact of this guidance on its consolidated financial statements and related disclosures.

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), 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. Earlier adoption is permitted. The Company currently is evaluating the impact of this guidance on its consolidated financial statements and related disclosures.

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 separately classified as a financing activity, in 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, 2016. Earlier adoption is permitted. The guidance related to the recognition of excess tax benefits and deficiencies as income tax benefit or expense is effective on a prospective basis, and the guidance related to the timing of excess tax benefit recognition is 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 is effective on a retrospective or prospective basis.

The Company expects to implement this ASU on January 1, 2017. The primary impact of adoption is expected to be the utilization of equity-based deferred tax assets (with no offset to additional paid-in capital) and the recognition of current period excess tax benefits and deficiencies in the income tax provision (rather than in additional paid-in capital). In addition, the Company expects changes related to the presentation of excess tax benefits as an operating activity (rather than a financing activity) in the statement of cash flows and expects to record a cumulative-effect adjustment to equity. The actual impact beginning on January 1, 2017 and going forward will depend upon certain variables, including the Company's stock price. Although the Company is still evaluating the impact of this ASU, we expect that it will have a material impact on our consolidated financial statements.

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 behalf will have 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 expects to continue to estimate forfeitures in determining the amount of compensation cost to be recognized in each period.

### **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, including cash acquired of \$38.9 million and 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 is expected to be synergistic with TaxAct as a result of cross-serving opportunities and an expanded addressable market for both HD Vest and TaxAct. 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 acquisition was funded by a combination of cash on hand and the new TaxAct - HD Vest 2015 credit facility, under which the Company borrowed \$400.0 million (see "Note 7: Debt").

Valuations were as follows (in thousands):

	<b>Fair value</b>
Tangible assets acquired, including cash acquired of \$38,874	\$ 78,700
Liabilities assumed	(21,976)
Identifiable net assets acquired	<u>\$ 56,724</u>
Fair value adjustments for intangible assets:	
Advisor relationships	\$ 240,300
Sponsor relationships	16,500
Curriculum	800
Proprietary technology	13,600
Trade name	52,500
Fair value of intangible assets acquired	<u>\$ 323,700</u>
Purchase price allocation:	
Cash paid	\$ 612,288
Plus: promissory note	6,400
Plus: noncontrolling interest	15,038
Less: escrow receivable	(20,000)
Purchase price	<u>613,726</u>
Less: identifiable net assets acquired	(56,724)
Less: fair value of intangible assets acquired	(323,700)
Plus: deferred tax liability related to intangible assets	<u>123,484</u>
Excess of purchase price over net assets acquired, allocated to goodwill	<u>\$ 356,786</u>

The Company's estimates of the economic lives of the acquired intangible assets are 20 years for the advisor relationships, 18 years for the sponsor relationships, 4 years for the curriculum, 6 years for the proprietary technology, and the trade name is estimated to have an indefinite life. Goodwill consists largely of the increased cross-serving opportunities and expanded addressable markets for both HD Vest and TaxAct, neither of which apply for separate recognition, and is not expected to be deductible for income tax purposes.

The primary areas of the acquisition accounting that are not yet finalized relate to income and non-income based taxes, certain contingent liability matters, indemnification assets, and residual goodwill. In the third quarter of 2016, the Company recorded a \$1.4 million increase to net assets acquired and a corresponding decrease to goodwill, predominantly related to the finalization of federal tax returns for pre-acquisition tax periods.

The promissory note is with the President of HD Vest and will be paid over a three -year period. The current portion was recorded in "Current portion of long-term debt, net," and the long-term portion was recorded in "Long-term debt, net." The note bears interest at a rate of 5% per year, with a principal amount that approximates its fair value. See "Note 7: Debt" for additional information on the "Note payable, related party."

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.

The gross contractual amount of accounts receivable, including commissions receivable, acquired was \$21.6 million and has been substantially collected as of September 30, 2016 .

During the last half of 2015, the Company incurred transaction costs of \$11.0 million , which were recognized in "General and administrative expense," and \$21.8 million in debt discount and issuance-related costs on the new credit facility.

*Pro Forma Financial Information of the HD Vest Acquisition (unaudited):*

The financial information in the table below summarizes the combined results of operations of Blucora and HD Vest on a pro forma basis, for the period in which the acquisition occurred as though the companies had been combined as of the beginning of that period. Pro forma adjustments have been made to include (a) amortization expense on the definite-lived intangible assets identified in this acquisition, debt-related expenses associated with the credit facility that was used to finance the acquisition, and estimated stock-based compensation related to Blucora share-based award grants to HD Vest employees; and to remove (b) acquisition-related transaction costs and debt-related expenses associated with HD Vest's previous debt facility, the latter of which was paid off and closed at the acquisition date. Income taxes also have been adjusted for the effect of these items. The following pro forma financial information is presented for informational purposes only and is not necessarily indicative of the results of operations that would have been achieved had the acquisition occurred at the beginning of the period presented (in thousands):

	<b>Three months ended September 30, 2015</b>	<b>Nine months ended September 30, 2015</b>
Revenue	\$ 82,852	\$ 352,449
Income (loss) from continuing operations	\$ (12,648)	\$ 2,459

*SimpleTax*: On July 2, 2015, TaxAct acquired all of the equity of SimpleTax, a provider of online tax preparation services for individuals in Canada, for C\$2.4 million (with C\$ indicating Canadian dollars and amounting to approximately \$1.9 million based on the acquisition-date exchange rate) in cash and additional consideration of up to C\$4.6 million (\$3.7 million) that is contingent upon product availability and revenue performance over a three-year period. The estimated fair value of the contingent consideration as of the acquisition date was C\$4.1 million (\$3.3 million). See "Note 6: Fair Value Measurements" for additional information related to the fair value measurement of the contingent consideration.

The acquisition of SimpleTax is strategic to TaxAct and intended to expand its operations. SimpleTax is included in the Tax Preparation segment. Intangible assets acquired amounted to approximately C\$1.2 million (\$0.9 million), consisting of customer relationships and proprietary technology both of which have finite lives. Identifiable net liabilities assumed were not material. Goodwill amounted to C\$5.6 million (\$4.5 million). Pro forma results of operations have not been presented because the effects of this acquisition were not material to the Company's consolidated results of operations.

**Note 4: Discontinued Operations**

On October 14, 2015, the Company announced its plans to focus on the technology-enabled financial solutions market, as more fully described in "Note 1: The Company and Basis of Presentation." The Strategic Transformation includes plans to divest the Search and Content and E-Commerce businesses. Financial condition, results of operations, cash flows, and the notes to financial statements reflect the Search and Content and E-Commerce businesses as discontinued operations for all periods presented. Amounts in discontinued operations include previously unallocated depreciation, amortization, stock-based compensation, income taxes, and other corporate expenses that were attributable to the Search and Content and E-Commerce businesses.

On August 9, 2016, the Company closed on an agreement with 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. Of this amount, \$44.7 million was received in the third quarter of 2016 and included in "Net cash provided (used) by investing activities from discontinued operations" in the consolidated statements of cash flows, and the remaining \$0.5 million should be received in the fourth quarter of 2016. The Company used all of the proceeds to pay down debt. Under a separate agreement, the Company is subleasing to InfoSpace the office space that InfoSpace is using currently. The rent payments and September 2020 termination date are consistent with the underlying non-cancelable operating lease. See "Note 9: Commitments and Contingencies" for additional information.



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

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
<i>Major classes of items in net income (loss):</i>				
Revenues	\$ 53,721	\$ 81,906	\$ 209,108	\$ 263,740
Operating expenses	(50,952)	(79,514)	(192,874)	(250,390)
Other loss, net	(415)	(195)	(844)	(2,469)
Income from discontinued operations before income taxes	2,354	2,197	15,390	10,881
Loss on classification as held-for-sale before income taxes	(29,463)	—	(46,463)	—
Loss on sale of discontinued operations before income taxes	(46)	—	(21,571)	—
Discontinued operations, before income taxes	(27,155)	2,197	(52,644)	10,881
Income tax expense	(13,373)	(600)	(5,337)	(3,759)
Discontinued operations, net of income taxes	\$ (40,528)	\$ 1,597	\$ (57,981)	\$ 7,122
			<b>September 30, 2016</b>	<b>December 31, 2015</b>
<i>Major classes of assets and liabilities:</i>				
Cash			\$ 2,282	\$ 2,158
Accounts receivable, net of allowance			5,423	26,352
Inventories			33,856	43,480
Other current assets			3,289	3,182
Property and equipment, net			7,479	9,824
Goodwill, net			—	67,201
Other intangible assets, net			17,790	59,006
Other long-term assets			313	460
Total assets of discontinued operations			\$ 70,432	\$ 211,663
Accounts payable			\$ 11,502	\$ 33,295
Other current liabilities			5,665	15,622
Debt (net of discount and including short-term and long-term portions)			16,000	25,000
Deferred tax liability, net			4,363	13,816
Other long-term liabilities			9	542
Total liabilities of discontinued operations			\$ 37,539	\$ 88,275

Assets and liabilities of discontinued operations are reported at the lower of carrying value or fair value less cost to sell, the latter of which results in a “loss on classification as held-for-sale.” Fair value is determined by estimating the most likely sale price with a third-party buyer, which is a significant input not observable in the market and, therefore, classified in Level 3 of the fair value hierarchy.

Debt is discussed further below in the related subsection of this note.

*Business exit costs:* In conjunction with the Strategic Transformation, the Company expects to incur business exit costs of approximately \$4.5 million . Of this amount, \$3.6 million has been recorded through September 30, 2016 , with the vast majority of these costs recorded in discontinued operations. The remaining costs are contingent upon the sale of the E-Commerce business and will be recorded at the time of sale. The following table summarizes the activity in the business exit cost liability (in thousands):

	<b>Employee-Related Costs</b>
Balance at December 31, 2015	\$ 994
Charges	2,609
Payments	(3,136)
Balance at September 30, 2016	<u>\$ 467</u>

*Debt:* The debt in discontinued operations consisted of the following (in thousands):

	<b>September 30, 2016</b>	<b>December 31, 2015</b>
Monoprice 2013 credit facility	\$ 16,000	\$ 25,000

On November 22, 2013, Monoprice entered into an agreement with a syndicate of lenders for the purposes of post-transaction financing of the Monoprice acquisition and providing future working capital flexibility for Monoprice. The credit facility consists of a \$30.0 million revolving credit loan—which includes up to \$5.0 million under a letter of credit and up to \$5.0 million in swingline loans—and, until repaid in full in 2015 as discussed below, also consisted of a \$40.0 million term loan. The final maturity date of the credit facility is November 22, 2018 but will become immediately due and payable upon the sale of Monoprice. Monoprice’s obligations under the credit facility are guaranteed by Monoprice Holdings, Inc. and are secured by the assets of the Monoprice business.

Monoprice initially borrowed \$50.0 million under the credit facility, from both the revolving credit loan and the term loan, and had net repayment activity of \$9.0 million and \$12.0 million during the nine months ended September 30, 2016 and 2015 , respectively. Monoprice has the right to permanently reduce, without premium or penalty, the entire credit facility at any time or portions of the credit facility in an aggregate principal amount not less than \$1.0 million or any whole multiple of \$1.0 million in excess thereof (for swingline loans, the aggregate principal amount is not less than \$0.1 million and any whole multiple of \$0.1 million in excess thereof). In accordance with this provision, Monoprice repaid the outstanding amount under the term loan in full in 2015, which was included in the repayment activity for 2015 and resulted in the write-down of the remaining unamortized discount and debt issuance costs related to the term loan. Amounts remain outstanding under the revolving credit loan, which continues to be available to Monoprice through its final maturity date.

The interest rate is variable, based upon, at the election of Monoprice, either LIBOR plus a margin of between 2.75% and 3.25% , payable each interest period, or a variable rate plus a margin of between 1.75% and 2.25% , payable quarterly. In each case, the applicable margin within the range depends upon Monoprice’s ratio of leverage to EBITDA. The credit facility includes financial and operating covenants with respect to certain ratios, including leverage ratio and fixed charge coverage ratio, which are defined further in the agreement. As of September 30, 2016 , Monoprice was in compliance with all of the financial and operating covenants. As of September 30, 2016 , 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.

**Note 5: Goodwill and Other Intangible Assets**

The following table presents goodwill by reportable segment (in thousands):

	<b>Wealth Management</b>	<b>Tax Preparation</b>	<b>Total</b>
Balance at December 31, 2015	\$ 356,386	\$ 192,573	\$ 548,959
Purchase accounting adjustment	400	—	400
Foreign currency translation adjustment	—	223	223
Balance at September 30, 2016	<u>\$ 356,786</u>	<u>\$ 192,796</u>	<u>\$ 549,582</u>

The purchase accounting adjustment primarily related to the final working capital adjustment and the finalization of federal tax returns associated with the acquisition of HD Vest as described in "Note 3: Business Combinations."

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

	September 30, 2016			December 31, 2015		
	Gross carrying amount	Accumulated amortization	Net	Gross carrying amount	Accumulated amortization	Net
<b>Definite-lived intangible assets:</b>						
Customer relationships	\$ 101,697	\$ (59,203)	\$ 42,494	\$ 101,681	\$ (49,664)	\$ 52,017
Advisor relationships	240,300	(12,854)	227,446	240,300	—	240,300
Sponsor relationships	16,500	(687)	15,813	16,500	—	16,500
Curriculum	800	(150)	650	800	—	800
Technology	43,978	(31,741)	12,237	43,948	(29,270)	14,678
Total definite-lived intangible assets	403,275	(104,635)	298,640	403,229	(78,934)	324,295
<b>Indefinite-lived intangible assets:</b>						
Trade names	72,000	—	72,000	72,000	—	72,000
Total	\$ 475,275	\$ (104,635)	\$ 370,640	\$ 475,229	\$ (78,934)	\$ 396,295

Amortization expense was as follows (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
<b>Statement of comprehensive income line items:</b>				
Cost of revenue	\$ 49	\$ 1,911	\$ 765	\$ 5,636
Amortization of other acquired intangible assets	8,297	3,195	24,929	9,566
Total	\$ 8,346	\$ 5,106	\$ 25,694	\$ 15,202

Expected amortization of definite-lived intangible assets held as of September 30, 2016 is as follows (in thousands):

	2016	2017	2018	2019	2020	Thereafter	Total
<b>Statement of comprehensive income line items:</b>							
Cost of revenue	\$ 48	\$ 193	\$ 96	\$ —	\$ —	\$ —	\$ 337
Amortization of other acquired intangible assets	8,309	33,173	32,863	32,627	20,274	171,057	298,303
Total	\$ 8,357	\$ 33,366	\$ 32,959	\$ 32,627	\$ 20,274	\$ 171,057	\$ 298,640

The weighted average amortization periods for definite-lived intangible assets are as follows: 40 months for customer relationships, 231 months for advisor relationships, 207 months for sponsor relationships, 39 months for curriculum, 62 months for technology, and 195 months for total definite-lived intangible assets.

**Note 6: Fair Value Measurements**

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, 2016	Fair value measurements at the reporting date using		
		Quoted prices in active markets using identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<b>Cash equivalents:</b>				
U.S. government securities	\$ 4,306	\$ —	\$ 4,306	\$ —
Money market and other funds	5,432	—	5,432	—
Commercial paper	2,500	—	2,500	—
Time deposits	659	—	659	—
Total cash equivalents	12,897	—	12,897	—
<b>Available-for-sale investments:</b>				
<b>Debt securities:</b>				
U.S. government securities	1,998	—	1,998	—
Commercial paper	1,995	—	1,995	—
Time deposits	499	—	499	—
Total debt securities	4,492	—	4,492	—
Total assets at fair value	\$ 17,389	\$ —	\$ 17,389	\$ —
Acquisition-related contingent consideration liability	\$ 3,500	\$ —	\$ —	\$ 3,500
Total liabilities at fair value	\$ 3,500	\$ —	\$ —	\$ 3,500
	December 31, 2015	Fair value measurements at the reporting date using		
		Quoted prices in active markets using identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<b>Cash equivalents:</b>				
Money market and other funds	\$ 5,410	\$ —	\$ 5,410	\$ —
<b>Available-for-sale investments:</b>				
<b>Debt securities:</b>				
U.S. government securities	11,301	—	11,301	—
Total assets at fair value	\$ 16,711	\$ —	\$ 16,711	\$ —
Acquisition-related contingent consideration liability	\$ 2,951	\$ —	\$ —	\$ 2,951
Total liabilities at fair value	\$ 2,951	\$ —	\$ —	\$ 2,951

The Company also had financial instruments that were not measured at fair value. See "Note 7: Debt" for details.

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 at December 31, 2015	\$ 2,951
Revaluation	391
Foreign currency transaction loss	158
Balance at September 30, 2016	<u>\$ 3,500</u>

The contingent consideration liability is related to the Company's acquisition of SimpleTax (see "Note 3: Business Combinations"), and the related payments are expected to occur annually beginning in 2017 and continuing through 2019. As of September 30, 2016, the Company could be required to pay up to an undiscounted amount of \$3.5 million. 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 (100%), and the discount rate (9%). A decrease in estimated revenues or an increase in the discount rate would decrease the fair value of the contingent consideration liability. As of September 30, 2016, the Company recorded approximately \$0.9 million in "Accrued expenses and other current liabilities" and \$2.6 million in "Other long-term liabilities" on the consolidated balance sheets.

The contractual maturities of the debt securities classified as available-for-sale at September 30, 2016 and December 31, 2015 were less than one year.

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

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Balance at September 30, 2016	\$ 4,491	\$ 2	\$ (1)	\$ 4,492
Balance at December 31, 2015	\$ 11,316	\$ —	\$ (15)	\$ 11,301

The Company had non-recurring Level 3 fair value measurements in 2016 related to the 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, 2016				December 31, 2015			
	Principal amount	Discount	Debt issuance costs	Net carrying value	Principal amount	Discount	Debt issuance costs	Net carrying value
TaxAct - HD Vest 2015 credit facility	\$ 295,000	\$ (8,260)	\$ (6,139)	\$ 280,601	\$ 400,000	\$ (12,000)	\$ (8,919)	\$ 379,081
Convertible Senior Notes	172,859	(7,830)	(2,005)	163,024	201,250	(12,207)	(3,125)	185,918
Note payable, related party	6,400	—	—	6,400	6,400	—	—	6,400
Total debt	<u>\$ 474,259</u>	<u>\$ (16,090)</u>	<u>\$ (8,144)</u>	<u>\$ 450,025</u>	<u>\$ 607,650</u>	<u>\$ (24,207)</u>	<u>\$ (12,044)</u>	<u>\$ 571,399</u>

*TaxAct - HD Vest 2015 credit facility:* On December 31, 2015, TaxAct and HD Vest entered into an agreement with a syndicate of lenders for the purposes of financing the HD Vest acquisition and providing future working capital flexibility for TaxAct and HD Vest. The credit facility consists of a \$25.0 million revolving credit loan--which includes a letter of credit and swingline loans--and a \$400.0 million term loan for an aggregate \$425.0 million credit facility. The final maturity dates of the revolving credit loan and term loan are December 31, 2020 and December 31, 2022, respectively. Obligations under the credit facility are guaranteed by TaxAct Holdings, Inc. and HD Vest Holdings, Inc. and are secured by the equity of the TaxAct and HD Vest businesses. While Blucora is not a party to the agreement, it has guaranteed the obligations of TaxAct and HD Vest under the credit facility, secured by its equity in TaxAct Holdings, Inc.

TaxAct and HD Vest initially borrowed \$400.0 million under the term loan and had repayment activity of \$105.0 million during the nine months ended September 30, 2016. Principal payments on the term loan are payable quarterly and will be between 0.625% and 1.875% of outstanding principal, depending upon TaxAct and HD Vest's combined net leverage of

EBITDA ratio. 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 6.00% , payable at the end of each interest period.

TaxAct and HD Vest 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 (for swingline loans, the aggregate principal amount is not less than \$0.5 million or any whole multiple of \$0.1 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 5.00% . Subsequent draws on the revolving credit loan also have variable interest rates, based upon LIBOR plus a margin of between 2.75% and 5.00% . In each case, the applicable margin within the range depends upon TaxAct and HD Vest's combined net leverage to EBITDA ratio over the previous four quarters. Interest is payable at the end of each interest period.

TaxAct and HD Vest have the right to permanently reduce, without premium or penalty, the entire credit facility at any time or portions of the credit facility in an aggregate principal amount not less than \$5.0 million or any whole multiple of \$1.0 million in excess thereof, except for prepayments through December 31, 2016 which carry a premium of 1.00% of the total principal amount outstanding just prior to prepayment. In accordance with this provision, TaxAct and HD Vest prepaid a portion of the credit facility during the nine months ended September 30, 2016 , which was included in the repayment activity for 2016 and resulted in the write-down of a portion of the unamortized discount and debt issuance costs. The write-down of the unamortized discount and debt issuance costs were recorded in " Other loss, net " on the consolidated statements of comprehensive income.

The credit facility includes financial and operating covenants, including a net leverage to EBITDA ratio, which are defined further in the agreement. As of September 30, 2016 , TaxAct and HD Vest were in compliance with all of the financial and operating covenants.

As of September 30, 2016 , 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.

*Convertible Senior Notes:* On March 15, 2013, the Company issued \$201.25 million aggregate principal amount of its Convertible Senior Notes (the "**Notes**"), inclusive of the underwriters' exercise in full of their over-allotment option of \$26.25 million . The Notes mature on April 1, 2019, unless earlier purchased, redeemed, or converted in accordance with the terms, and bear interest at a rate of 4.25% per year, payable semi-annually in arrears beginning on October 1, 2013. The Company received net proceeds from the offering of approximately \$194.8 million after adjusting for debt issuance costs, including the underwriting discount.

The Notes were issued under an indenture dated March 15, 2013 (the "**Indenture** ") by and between the Company and The Bank of New York Mellon Trust Company, N.A., as Trustee. There are no financial or operating covenants relating to the Notes.

Beginning July 1, 2013 and prior to the close of business on September 28, 2018, holders may convert all or a portion of the Notes at their option, in multiples of \$1,000 principal amount, under the following circumstances:

- During any fiscal quarter commencing July 1, 2013, if the last reported sale price of the Company's common stock for at least 20 trading days during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day. As of September 30, 2016 , the Notes were not convertible .
- During the five business day period after any five consecutive trading day period (the "**measurement period** ") in which the trading price per \$1,000 principal amount of the Notes for each trading day of the measurement period was less than 98% of the product of the last reported sales price of the Company's common stock and the conversion rate on each trading day.
- If the Company calls any or all of the Notes for redemption.
- Upon the occurrence of specified corporate events, including a merger or a sale of all or substantially all of the Company's assets.

The convertibility of the Notes is determined at the end of each reporting period. If the Notes are determined to be convertible, they remain convertible until the end of the subsequent quarter and are classified in "Current liabilities" on the balance sheet; otherwise, they are classified in "Long-term liabilities." Depending upon the price of the Company's common

stock or the trading price of the Notes within the reporting period, pursuant to the first two criteria listed above, the Notes could be convertible during one reporting period but not convertible during a comparable reporting period.

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

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

At the time the Company issued the Notes, the Company was only permitted to settle conversions with shares of its common stock. The Company received shareholder approval at its annual meeting in May 2013 to allow for "flexible settlement," which provided the Company with the option to settle conversions in cash, shares of common stock, or any combination thereof. The Company's intention is to satisfy conversion of the Notes with cash for the principal amount of the debt and shares of common stock for any related conversion premium. The Company expects to have the liquidity to satisfy conversion of the Notes' principal for cash based upon cash on hand, net cash flows from operations, and cash available through the credit facility.

Beginning April 6, 2016, the Company may, at its option, redeem for cash all or part of the Notes plus accrued and unpaid interest. If the Company undergoes a fundamental change (as described in the Indenture), holders may require the Company to repurchase for cash all or part of their Notes in principal amounts of \$1,000 or an integral multiple thereof. The fundamental change repurchase price will be equal to 100% of the principal amount of the Notes to be repurchased, plus accrued and unpaid interest. However, if a fundamental change occurs and a holder elects to convert the Notes, the Company will, under certain circumstances, increase the applicable conversion rate for the Notes surrendered for conversion by a number of additional shares of common stock based on the date on which the fundamental change occurs or becomes effective and the price paid per share of the Company's common stock in the fundamental change as specified in the Indenture. The Strategic Transformation does not qualify as a fundamental change under the Indenture.

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

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

During the nine months ended September 30, 2016, the Company repurchased \$28.4 million of the Notes' principal for cash of \$20.7 million. The Company allocated the cash paid first to the liability component of the Notes based on the fair value of the repurchased 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 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.

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

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Contractual interest expense (Cash)	\$ 1,836	\$ 2,138	\$ 5,782	\$ 6,415
Amortization of debt issuance costs (Non-cash)	231	249	704	735
Accretion of debt discount (Non-cash)	901	975	2,749	2,873
Total interest expense	\$ 2,968	\$ 3,362	\$ 9,235	\$ 10,023
Effective interest rate of the liability component	7.32%	7.32%	7.32%	7.32%

The fair value of the principal amount of the Notes as of September 30, 2016 was \$164.2 million, based on the last quoted active trading price, a Level 1 fair value measurement, as of that date.

*Note payable, related party:* The note payable is with the 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 President of HD Vest sold a portion of his shares to the Company in exchange for the note. See "Note 3: Business Combinations" for additional information on the acquisition of HD Vest. The note will be paid over a three-year period, with 50% paid in year one, 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 at December 31, 2015	\$ 15,038
Net income attributable to noncontrolling interests	426
Balance at September 30, 2016	\$ 15,464

The redemption amount at September 30, 2016 was \$10.9 million.

**Note 9: Commitments and Contingencies**

Except for the debt repayments and repurchases (as discussed further in "Note 7: Debt") and estimated total sublease income of \$3.2 million (related to the sublease agreement with InfoSpace as discussed further in "Note 4: Discontinued Operations"), there have been no material changes during the period covered by this Quarterly Report on Form 10-Q, outside of the ordinary course of the Company's business, to the contractual obligations and commitments specified in "Note 9: Commitments and Contingencies" in Part II Item 8 of the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

*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. 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 March 5, 2015, Remigius Shatas filed a shareholder derivative action against Andrew Snyder, a director of the Company, certain companies affiliated with Mr. Snyder, as well as nominal defendant Blucora, in the Superior Court of the State of Washington in and for King County. Although the Company is a nominal defendant, the plaintiff purports to bring the action on behalf of the Company and thus does not seek monetary damages from the Company. Instead, the plaintiff alleges improper use of inside information in certain sales of the Company's common stock and seeks to recover from Andrew Snyder and those companies affiliated with Mr. Snyder profits resulting from those allegedly improper sales. On May 15, 2015, the court granted the Company's motion to dismiss the Complaint based on the plaintiffs' failure to file this matter in the proper court. Subsequently, the plaintiff moved for reconsideration of the Superior Court's decision to grant the motion to dismiss, and on June 5, 2015, that motion for reconsideration was denied. On June 30, 2015, the plaintiff filed a Notice of Appeal with the Superior Court, indicating plaintiff's intention to appeal to the Washington Court of Appeals, Division I. On September 14, 2015, the plaintiff filed a motion with the Washington Court of Appeals to add an additional plaintiff, which the court



subsequently denied on October 19, 2015. In connection with the appeal, the Company filed a motion to dismiss the appeal on the grounds that plaintiff lacked standing at all points relevant the lawsuit. The appeal and the Company's motion have been fully-briefed and were argued before the Washington Court of Appeals on April 11, 2016. On October 17, 2016, the Court of Appeals, in an unpublished opinion reversed the dismissal of this action and remanded it back to the trial court for further proceedings. In its order, the Court of Appeals declined to rule on a number of issues relating to the issue of proper venue and further denied the motion to dismiss relating to the plaintiff's standing, finding that the record was not fully developed enough for the Court of Appeals to rule on these issues and noted that these issues may be litigated before the trial court on remand.

The Company has entered into indemnification agreements in the ordinary course of business with its officers and directors and 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 ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Cost of revenue	\$ 52	\$ 23	\$ 117	\$ 71
Engineering and technology	434	112	1,167	336
Sales and marketing	661	230	1,688	610
General and administrative	2,217	1,709	7,644	4,957
Total in continuing operations	\$ 3,364	\$ 2,074	\$ 10,616	\$ 5,974

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

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Stock options exercised	—	25	140	245
RSUs vested	102	40	426	209
Shares purchased pursuant to ESPP	114	51	191	103
Total	216	116	757	557

*Stock repurchase program:* In February 2013, the Company's Board of Directors approved a stock repurchase program whereby the Company could purchase its common stock in open-market transactions. The repurchase period concluded in May 2016. Repurchased shares were retired and resumed the status of authorized but unissued shares of common stock. During the nine months ended September 30, 2016, the Company purchased no shares. During the nine months ended September 30, 2015, the Company purchased 0.5 million shares at a total cost of approximately \$7.0 million and an average price of \$14.46 per share, exclusive of purchase and administrative costs.

**Note 11: Segment Information**

The Company has two reportable segments: the Wealth Management segment and the Tax Preparation segment. The Wealth Management segment consists of the HD Vest business, which was acquired on December 31, 2015. HD Vest is included in Blucora's results of operations beginning on January 1, 2016. As a result of the Strategic Transformation and planned divestitures of the Search and Content and E-Commerce segments, those former 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.

The Company does not allocate certain general and administrative costs (including personnel and overhead costs), stock-based compensation, acquisition-related costs, depreciation, and amortization of acquired intangible assets to the reportable segments. Such amounts are reflected in the table under the heading "Corporate-level activity." In addition, the Company does not allocate other loss, net and income taxes to the reportable segments. The Company does not account for, and does not

report to management, its assets or capital expenditures by segment other than goodwill and intangible assets used for impairment analysis purposes.

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 September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Revenue:				
Wealth Management	\$ 80,088	\$ —	\$ 233,496	\$ —
Tax Preparation	3,149	2,875	135,614	114,843
Total revenue	83,237	2,875	369,110	114,843
Operating income (loss):				
Wealth Management	11,628	—	32,458	—
Tax Preparation	(4,382)	(2,542)	72,987	61,493
Corporate-level activity	(17,754)	(13,512)	(54,153)	(37,622)
Total operating income (loss)	(10,508)	(16,054)	51,292	23,871
Other loss, net	(11,453)	(3,080)	(29,883)	(9,109)
Income tax benefit (expense)	8,537	6,926	(8,899)	(5,144)
Discontinued operations, net of income taxes	(40,528)	1,597	(57,981)	7,122
Net income (loss)	\$ (53,952)	\$ (10,611)	\$ (45,471)	\$ 16,740

**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, vesting of unvested RSUs, and conversion or maturity of the Notes. Dilutive potential common shares are excluded from the computation of earnings per share if their effect is antidilutive.

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

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
<b>Numerator:</b>				
Income (loss) from continuing operations	\$ (13,424)	\$ (12,208)	\$ 12,510	\$ 9,618
Net income attributable to noncontrolling interests	(167)	—	(426)	—
Income (loss) from continuing operations attributable to Blucora, Inc.	(13,591)	(12,208)	12,084	9,618
Income (loss) from discontinued operations attributable to Blucora, Inc.	(40,528)	1,597	(57,981)	7,122
Net income (loss) attributable to Blucora, Inc.	\$ (54,119)	\$ (10,611)	\$ (45,897)	\$ 16,740
<b>Denominator:</b>				
Weighted average common shares outstanding, basic	41,635	40,950	41,404	40,952
Dilutive potential common shares	—	—	925	959
Weighted average common shares outstanding, diluted	41,635	40,950	42,329	41,911
<b>Net income (loss) per share attributable to Blucora, Inc. - basic:</b>				
Continuing operations	\$ (0.33)	\$ (0.30)	\$ 0.29	\$ 0.23
Discontinued operations	(0.97)	0.04	(1.40)	0.18
Basic net income (loss) per share	\$ (1.30)	\$ (0.26)	\$ (1.11)	\$ 0.41
<b>Net income (loss) per share attributable to Blucora, Inc. - diluted:</b>				
Continuing operations	\$ (0.33)	\$ (0.30)	\$ 0.29	\$ 0.23
Discontinued operations	(0.97)	0.04	(1.37)	0.17
Diluted net income (loss) per share	\$ (1.30)	\$ (0.26)	\$ (1.08)	\$ 0.40
Shares excluded	10,246	6,195	6,317	2,950

Shares excluded primarily related to the antidilutive effect of a net loss (for the three months ended September 30, 2016 and 2015) and stock options with an exercise price greater than the average price during the applicable periods.

As more fully discussed in "Note 7: Debt," in March 2013, the Company issued the Notes, which are convertible and mature in April 2019. In May 2013, the Company received shareholder approval for "flexible settlement," which provided the Company with the option to settle conversions in cash, shares of common stock, or any combination thereof. The Company intends, upon conversion or maturity of the Notes, to settle the principal in cash and satisfy any conversion premium by issuing shares of its common stock. The Company expects to have the liquidity to satisfy conversion of the Notes' principal for cash based upon cash on hand, net cash flows from operations, and cash available through the credit facility. As a result, the Company only includes the impact of the premium feature in its dilutive potential common shares when the average stock price during the quarter exceeds the conversion price of the Notes, which did not occur during the three months ended September 30, 2016 and 2015.

### Note 13: Subsequent Event

On October 27, 2016, Blucora announced plans to relocate its corporate headquarters by June 2017 from Bellevue, Washington to Irving, Texas as part of the Strategic Transformation and "One Company" operating model. The actions to relocate corporate headquarters are intended to drive efficiencies, improve operational effectiveness, and deliver cost savings over time. The Company expects to incur restructuring charges between \$7.5 million and \$11.3 million, of which we estimate \$1.9 million to \$2.6 million are non-cash expenses. Such range primarily includes severance and costs to exit the leased facility in Bellevue, as well as loss on disposal of property and equipment, primarily driven by leasehold improvements, and other move-related expenses. In addition, the Company expects to incur costs between \$3.0 million and \$4.0 million associated with expenses that do not qualify for restructuring classification, such as recruiting and overlap in personnel expenses as we transition positions to Irving, Texas. We expect that the majority of these costs will be incurred over the next three quarters.

## 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," "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.*

### Overview

Blucora (the "**Company**," "**Blucora**," or "**we**") operates two primary 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**"), which we acquired on December 31, 2015. HD Vest is included in Blucora's results of operations as of January 1, 2016. HD Vest provides wealth management solutions for financial advisors. 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.

Blucora also operated an internet Search and Content business and continues to operate an E-Commerce business. The Search and Content business operated through the InfoSpace LLC subsidiary ("**InfoSpace**") and provided search services to users of our owned and operated and distribution partners' web properties, as well as online content through HowStuffWorks ("**HSW**"). The E-Commerce business consists of the operations of Monoprice, Inc. ("**Monoprice**") and sells self-branded electronics and accessories to both consumers and businesses. See further information regarding these businesses under "Strategic Transformation" below.

### Strategic Transformation

On October 14, 2015, we announced our plans to focus on the technology-enabled financial solutions market (the "Strategic Transformation"). Strategic Transformation refers to our transformation into a technology-enabled financial solutions company comprised of TaxAct and HD Vest, and our intention to divest our Search and Content and E-Commerce businesses. The transformation will, among other things, result in fewer support requirements and, therefore, reduced corporate operating expenses. We also expect our capital allocation priority in the near-term to be to pay down debt, which includes using all of the net divestiture proceeds from the sales of the Search and Content business and the E-Commerce business to pay down the new TaxAct - HD Vest 2015 credit facility. The elements of our Strategic Transformation are described in more detail below. 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, 2015 .

*Acquisition:* On December 31, 2015 , we acquired HD Vest for \$613.7 million , including cash acquired of \$38.9 million and 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 is expected to be synergistic with TaxAct as a result of cross-serving opportunities and an expanded addressable market for both HD Vest and TaxAct. The acquisition was funded by a combination of cash on hand and the new TaxAct - HD Vest 2015 credit facility, under which we borrowed \$400.0 million. During the last half of 2015, we incurred transaction costs of \$11.0 million .

See "Note 3: Business Combinations" and "Note 7: Debt" of the Notes to Unaudited Condensed Consolidated Financial Statements in Part I Item 1 of this report for additional information on the HD Vest acquisition and the new credit facility, respectively.

*Business divestitures and chief executive officer change:* On October 14, 2015, we announced plans to divest the Search and Content and E-Commerce businesses. Accordingly, our financial condition, results of operations, and cash flows reflect the Search and Content and E-Commerce businesses as discontinued operations for all periods presented. Unless otherwise specified, disclosures in "Management's Discussion and Analysis of Financial Condition and Results of Operations" reflect continuing operations.

On August 9, 2016, we 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. Of this amount, \$44.7 million was received in the third quarter of 2016, and the remaining \$0.5 million should be received in the fourth quarter of 2016. We used all of the proceeds to pay down debt.

We expect to incur business exit costs of approximately \$4.5 million. Of this amount, \$3.6 million has been recorded through September 30, 2016, with the vast majority of these costs recorded in discontinued operations. The remaining costs are contingent upon the sale of the E-Commerce business and will be recorded at the time of sale.

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.

On October 14, 2015, we also announced the departure of our former chief executive officer. His departure became effective March 31, 2016. In conjunction with such announcement, we recorded \$1.8 million of separation-related costs, most of which were pursuant to the former chief executive officer's employment agreement and paid in April 2016. On March 12, 2016, our Board of Directors appointed our new chief executive officer, effective April 4, 2016.

## **Our Continuing Businesses**

### *Wealth Management*

The HD Vest business provides wealth management solutions for financial advisors. 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 generates revenue primarily through commissions, quarterly investment advisory fees based on assets under management, and other fees.

HD Vest was founded to help tax and accounting professionals integrate financial services into their practices. The company 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's business model provides an open-architecture investment platform and technology tools to help financial advisors identify investment opportunities for their clients, while the long-standing tax advisory relationships provide a large client base of possible investment clients. This results in an experienced and stable network of financial advisors, who have multiple revenue-generating options to diversify their earnings sources.

Our Wealth Management business is subject to certain additional financial industry regulations and supervision, including by the SEC, FINRA, the DOL, state securities and insurance regulators, and other regulatory authorities. For additional information regarding the potential impact of governmental regulation on our operations and results, see the Risk Factor "Increased government regulation of our business may harm our operating results" in Part II Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2015.

### *Tax Preparation*

Our TaxAct business provides digital 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).

We have four offerings for consumers for tax year 2015: a "free" federal and state edition that handles simple returns; a "basic" offering that contains all of the features of the free federal edition in addition to import capabilities, taxpayer phone support, and return preparation assistance tools; a "plus" offering that contains all of the basic offering features in addition to tools to maximize credits and deductions, and enhanced reporting; and a "premium" offering that contains all of the plus offering features in addition to tools for self-employed individuals to maximize credits and deductions. For the latter three offerings, state returns can be filed through the separately-sold state edition. We also have an offering for small business owners. TaxAct's offerings come with a price lock guarantee, whereby the price at the start of the tax return filing process holds until the return is filed, rather than pricing the offering at the time that the tax return is filed. In addition to these core

offerings, TaxAct also offers ancillary services such as refund payment transfer, data archive services, audit defense, stored value cards, and other add-on services.

TaxAct's professional tax preparer software allows professional tax preparers to file individual and business returns for their clients. TaxAct offers flexible pricing and packaging options that help tax professionals save money by paying only for what they need.

### Acquisitions

On December 31, 2015, we acquired HD Vest, as described further under "Strategic Transformation" above. HD Vest is included in Blucora's results of operations as of January 1, 2016. Accordingly, the results discussed below were impacted by the timing of this acquisition, in which 2016 includes a full year of results as compared to no results in 2015.

On July 2, 2015, TaxAct acquired SimpleTax Software Inc. ("**SimpleTax**"), a provider of online tax preparation services for individuals in Canada through its website [www.simpletax.ca](http://www.simpletax.ca), for C\$2.4 million (with C\$ indicating Canadian dollars and amounting to approximately \$1.9 million based on the acquisition-date exchange rate) in cash and additional consideration of up to C\$4.6 million (\$3.7 million) that is contingent upon product availability and revenue performance over a three-year period. SimpleTax is included in our financial results beginning on July 2, 2015.

### Seasonality

Our Tax Preparation segment 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 segment typically reports losses because revenue from the segment is minimal while core operating expenses continue.

### Comparability

We reclassified certain amounts related to discontinued operations. 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.

## RESULTS OF OPERATIONS

### Summary

<u>(In thousands, except percentages)</u>	<u>Three months ended September 30,</u>			<u>Nine months ended September 30,</u>		
	<u>2016</u>	<u>2015</u>	<u>Percentage Change</u>	<u>2016</u>	<u>2015</u>	<u>Percentage Change</u>
Revenue	\$ 83,237	\$ 2,875	2,795 %	\$ 369,110	\$ 114,843	221%
Operating income (loss)	\$ (10,508)	\$ (16,054)	(35)%	\$ 51,292	\$ 23,871	115%

*Three months ended September 30, 2016 compared with three months ended September 30, 2015*

Total revenues increased approximately \$80.4 million due to increases of \$80.1 million and \$0.3 million in revenue related to our Wealth Management and Tax Preparation businesses, respectively.

Operating loss decreased approximately \$5.5 million, consisting of the \$80.4 million increase in revenue and offset by a \$74.8 million increase in operating expenses. Key changes in operating expenses were:

- \$68.5 million increase in the Wealth Management segment's operating expenses due to the timing of the HD Vest acquisition.
- \$2.1 million increase in the Tax Preparation segment's operating expenses, primarily due to higher spending on marketing, higher professional services fees mostly related to development projects, and, to a lesser extent, higher personnel expenses resulting from overall increased headcount supporting most functions.
- \$4.2 million increase in corporate-level expense activity, primarily due to higher amortization expense related to HD Vest acquisition-related intangible assets, higher stock-based compensation mainly related to a net increase in stock award grants (including to HD Vest employees), higher depreciation expense mainly related to HD Vest fixed assets, and costs incurred as part of our Strategic Transformation, offset by lower amortization expense associated

with concluding the useful life of certain TaxAct acquisition-related intangible assets during 2016 and lower acquisition-related costs due to professional services fees and other direct transaction costs incurred in the prior year related to the HD Vest acquisition.

Segment results are discussed in the next section.

*Nine months ended September 30, 2016 compared with nine months ended September 30, 2015*

Total revenues increased approximately \$254.3 million due to increases of \$233.5 million and \$20.8 million in revenue related to our Wealth Management and Tax Preparation businesses, respectively.

Operating income increased approximately \$27.4 million, consisting of the \$254.3 million increase in revenue and offset by a \$226.8 million increase in operating expenses. Key changes in operating expenses were:

- \$201.0 million increase in the Wealth Management segment's operating expenses due to the timing of the HD Vest acquisition.
- \$9.3 million increase in the Tax Preparation segment's operating expenses, primarily due to higher spending on marketing, higher personnel expenses resulting from overall increased headcount supporting most functions, higher data center costs mostly related to third-party technology fees (software support and maintenance, bandwidth and hosting, and professional services), higher third-party costs associated with additional features in the current year offerings, and an increase in professional services fees mostly related to development projects.
- \$16.5 million increase in corporate-level expense activity, primarily due to the same factors described above that impacted the quarterly period.

Segment results are discussed in the next section.

#### SEGMENT REVENUE/OPERATING INCOME

The revenue and operating income amounts in this section are presented on a basis consistent with accounting principles generally accepted in the U.S. ("GAAP") and include certain reconciling items attributable to each of the segments. Segment information appearing in "Note 11: Segment Information" of the Notes to Unaudited Condensed Consolidated Financial Statements in Part I Item 1 of this report is presented on a basis consistent with our current internal management financial reporting. We do not allocate certain general and administrative costs (including personnel and overhead costs), stock-based compensation, acquisition-related costs, depreciation, amortization of acquired intangible assets, other loss, net, and income taxes to segment operating results. We analyze these separately.

Following the acquisition of HD Vest and the discontinued operations treatment of Search and Content and E-Commerce, we determined that we have two reportable segments: Wealth Management and Tax Preparation.

#### **Wealth Management**

On December 31, 2015, we acquired HD Vest, a provider of wealth management solutions for financial advisors. HD Vest is included in Blucora's results of operations as of January 1, 2016.

<u>(In thousands, except percentages)</u>	Three months ended September 30,		Nine months ended September 30,	
	2016		2016	
Revenue	\$	80,088	\$	233,496
Operating income	\$	11,628	\$	32,458
Segment margin		15%		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 and our resulting financial position and operating performance. A summary of our sources of revenue and business metrics are as follows.

Sources of revenue

<b>(In thousands)</b>				<b>Three months ended September 30, 2016</b>	<b>Nine months ended September 30, 2016</b>
<b>Sources of Revenue</b>		<b>Primary Drivers</b>			
Advisor-driven	Commission	- Transactions - Asset levels		\$ 38,962	\$ 111,070
	Advisory	- Advisory asset levels		32,705	95,759
Other revenue	Asset-based	- Cash balances - Interest rates - Number of accounts - Client asset levels		5,476	16,689
	Transaction and fee	- Account activity - Number of clients - Number of advisors - Number of accounts		2,945	9,978
Total revenue				\$ 80,088	\$ 233,496
Total recurring revenue				\$ 62,543	\$ 183,772
Recurring revenue rate				78.1%	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.

Business metrics

<b>(In thousands, except percentages and as otherwise indicated)</b>	<b>September 30, 2016</b>
Total Assets Under Administration ("AUA")	\$ 38,482,620
Advisory Assets Under Management ("AUM")	\$ 10,204,448
Percentage of total AUA	26.5%
Number of advisors (in ones)	4,568

*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:

<b>(In thousands)</b>	<b>Three months ended September 30, 2016</b>	<b>Nine months ended September 30, 2016</b>
<u>By product category:</u>		
Mutual funds	\$ 20,196	\$ 59,021
Variable annuities	12,395	35,725
Insurance	3,689	8,836
General securities	2,682	7,488
Total commission revenue	\$ 38,962	\$ 111,070
<u>By sales-based and trailing:</u>		
Sales-based	\$ 16,925	\$ 47,703
Trailing	22,037	63,367
Total commission revenue	\$ 38,962	\$ 111,070



*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 advisory assets under management. 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 advisory assets under management was as follows:

<b>(In thousands)</b>	<b>Three months ended September 30, 2016</b>	<b>Nine months ended September 30, 2016</b>
Balance, beginning of the period	\$ 9,814,232	\$ 9,692,244
Net increase (decrease) in new advisory assets	131,982	(1,357)
Market impact and other	258,234	513,561
Balance, end of the period	<u>\$ 10,204,448</u>	<u>\$ 10,204,448</u>

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 advisory assets under management.

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

*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.

#### **Tax Preparation**

<b>(In thousands, except percentages)</b>	<b>Three months ended September 30,</b>			<b>Nine months ended September 30,</b>		
	<b>2016</b>	<b>2015</b>	<b>Percentage Change</b>	<b>2016</b>	<b>2015</b>	<b>Percentage Change</b>
Revenue	\$ 3,149	\$ 2,875	10%	\$ 135,614	\$ 114,843	18%
Operating income (loss)	\$ (4,382)	\$ (2,542)	72%	\$ 72,987	\$ 61,493	19%
Segment margin	(139)%	(88)%		54%	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 the most 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 the most important non-financial metrics in measuring the performance of the professional tax preparer side of the Tax Preparation business.

*Three months ended September 30, 2016 compared with three months ended September 30, 2015*

Tax Preparation revenue was comparable to the prior period.

Tax Preparation operating loss increased approximately \$1.8 million, due mainly to a \$2.1 million increase in operating expenses. The increase in Tax Preparation segment operating expenses primarily was due to increased spending on marketing,

an increase in professional services fees mostly related to development projects, and, to a lesser extent, an increase in personnel expenses resulting from overall higher headcount supporting most functions.

*Nine months ended September 30, 2016 compared with nine months ended September 30, 2015*

Tax Preparation revenue increased approximately \$20.8 million primarily due to growth in revenue earned from online consumer users, increased sales of ancillary services, and 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 the re-packaging of our offerings and related price increases for tax year 2015. Revenue derived from professional tax preparers also contributed to the increase, primarily due to an increase in the number of professional preparer units sold.

Tax Preparation operating income increased approximately \$11.5 million, consisting of the \$20.8 million increase in revenue and offset by a \$9.3 million increase in operating expenses. The increase in Tax Preparation segment operating expenses primarily was due to increased spending on marketing, an increase in personnel expenses resulting from overall higher headcount supporting most functions, increased data center costs mostly related to third-party technology fees (software support and maintenance, bandwidth and hosting, and professional services), increased third-party costs associated with additional features in the current year offerings, and an increase in professional services fees mostly related to development projects.

### Corporate-Level Activity

<u>(In thousands)</u>	<u>Three months ended September 30,</u>			<u>Nine months ended September 30,</u>		
	<u>2016</u>	<u>2015</u>	<u>Change</u>	<u>2016</u>	<u>2015</u>	<u>Change</u>
Operating expenses	\$ 4,907	\$ 4,433	\$ 474	\$ 14,066	\$ 13,471	\$ 595
Stock-based compensation	3,364	2,074	1,290	10,616	5,974	4,642
Acquisition-related costs	—	1,314	(1,314)	391	1,314	(923)
Depreciation	1,137	585	552	3,386	1,661	1,725
Amortization of acquired intangible assets	8,346	5,106	3,240	25,694	15,202	10,492
Total corporate-level activity	\$ 17,754	\$ 13,512	\$ 4,242	\$ 54,153	\$ 37,622	\$ 16,531

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, and amortization of acquired intangible assets. 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, 2016 compared with three months ended September 30, 2015*

Operating expenses included in corporate-level activity increased primarily due to costs incurred as part of our Strategic Transformation.

Stock-based compensation increased primarily due to a net increase in stock award grants (including to HD Vest employees).

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 decrease relates to professional services fees and other direct transaction costs incurred in the prior year related to the HD Vest acquisition.

Depreciation increased primarily due to depreciation expense on HD Vest fixed assets.

Amortization of acquired intangible assets increased primarily due to amortization expense on HD Vest acquisition-related intangible assets, offset by lower amortization expense associated with concluding the useful life of certain TaxAct acquisition-related intangible assets during 2016.

*Nine months ended September 30, 2016 compared with nine months ended September 30, 2015*

Operating expenses included in corporate-level activity increased primarily due to costs incurred as part of our Strategic Transformation, offset by lower headcount.

Stock-based compensation, depreciation, and amortization of acquired intangible assets were affected by the same factors described above that impacted the quarterly period.

Acquisition-related costs decreased due to professional services fees and other direct transaction costs incurred in the prior year related to the HD Vest acquisition, offset by changes in the fair value of the SimpleTax contingent consideration liability, which was revalued in the second quarter of 2016.

#### OPERATING EXPENSES

#### Cost of Revenue

<u>(In thousands, except percentages)</u>	<u>Three months ended September 30,</u>			<u>Nine months ended September 30,</u>		
	<u>2016</u>	<u>2015</u>	<u>Change</u>	<u>2016</u>	<u>2015</u>	<u>Change</u>
Wealth management services cost of revenue	\$ 54,921	\$ —	\$ 54,921	\$ 158,213	\$ —	\$ 158,213
Tax preparation services cost of revenue	1,319	1,170	149	6,549	4,680	1,869
Amortization of acquired technology	49	1,911	(1,862)	765	5,636	(4,871)
Total cost of revenue	\$ 56,289	\$ 3,081	\$ 53,208	\$ 165,527	\$ 10,316	\$ 155,211
Percentage of revenue	68%	107%		45%	9%	

We record the cost of revenue for sales of services when the related revenue is recognized. Services cost of revenue consists of costs related to our Wealth Management and Tax Preparation businesses, which include commissions 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, 2016 compared with three months ended September 30, 2015*

Wealth management services cost of revenue increased due to the timing of the HD Vest acquisition.

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

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

*Nine months ended September 30, 2016 compared with nine months ended September 30, 2015*

Wealth management services cost of revenue increased due to the timing of the HD Vest acquisition.

Tax preparation services cost of revenue increased primarily due to higher data center costs mostly related to third-party technology fees (software support and maintenance, bandwidth and hosting, and professional services) and higher third-party costs associated with additional features in the current year offerings.

Amortization of acquired technology was affected by the same factor described above that impacted the quarterly period.

**Engineering and Technology**

<u>(In thousands, except percentages)</u>	Three months ended September 30,			Nine months ended September 30,		
	2016	2015	Change	2016	2015	Change
Engineering and technology	\$ 4,588	\$ 1,251	\$ 3,337	\$ 12,842	\$ 3,471	\$ 9,371
Percentage of revenue	6%	44%		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, 2016 compared with three months ended September 30, 2015*

Engineering and technology expenses increased, of which \$2.3 million was attributable to HD Vest (excluding stock-based compensation) and related to the timing of the HD Vest acquisition. The remaining increase primarily was due to a \$0.6 million increase in personnel expenses, mainly related to higher stock-based compensation due to an increase in stock award grants (including to HD Vest employees) and higher headcount in our Tax Preparation business, and an increase in professional services fees mostly related to Tax Preparation development projects.

*Nine months ended September 30, 2016 compared with nine months ended September 30, 2015*

Engineering and technology expenses increased, of which \$6.6 million was attributable to HD Vest (excluding stock-based compensation) and related to the timing of the HD Vest acquisition. The remaining increase primarily was due to a \$2.2 million increase in personnel expenses, which were affected by the same factors described above that impacted the quarterly period, and, to a lesser extent, an increase in professional services fees mostly related to Tax Preparation development projects.

**Sales and Marketing**

<u>(In thousands, except percentages)</u>	Three months ended September 30,			Nine months ended September 30,		
	2016	2015	Change	2016	2015	Change
Sales and marketing	\$ 11,965	\$ 2,113	\$ 9,852	\$ 75,715	\$ 42,824	\$ 32,891
Percentage of revenue	14%	73%		21%	37%	

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, 2016 compared with three months ended September 30, 2015*

Sales and marketing expenses increased, of which \$8.1 million was attributable to HD Vest (excluding stock-based compensation) and related to the timing of the HD Vest acquisition. The remaining increase primarily was due to a \$1.1 million increase in marketing expenses and a \$0.6 million increase in personnel expenses. The increase in marketing expenses was driven by increased marketing in our Tax Preparation business. Personnel expenses increased primarily due to higher stock-based compensation with an increase in stock award grants (including to HD Vest employees) and higher headcount in our Tax Preparation business.

*Nine months ended September 30, 2016 compared with nine months ended September 30, 2015*

Sales and marketing expenses increased, of which \$26.6 million was attributable to HD Vest (excluding stock-based compensation) and related to the timing of the HD Vest acquisition. The remaining increase primarily was due to a \$4.3 million increase in marketing expenses and a \$1.7 million increase in personnel expenses, both of which were affected by the same factors described above that impacted the quarterly period.

## General and Administrative

(In thousands, except percentages)	Three months ended September 30,			Nine months ended September 30,		
	2016	2015	Change	2016	2015	Change
General and administrative	\$ 11,638	\$ 8,895	\$ 2,743	\$ 35,899	\$ 23,694	\$ 12,205
Percentage of revenue	14%	309%		10%	21%	

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, 2016 compared with three months ended September 30, 2015*

G&A expenses increased, of which \$3.2 million was attributable to HD Vest (excluding stock-based compensation) and related to the timing of the HD Vest acquisition. The remaining increase primarily was due to a \$0.9 million net increase in personnel expenses, which included higher stock-based compensation, mainly related to a net increase in stock award grants (including to HD Vest employees), and costs incurred related to our Strategic Transformation. These increases were offset by a \$1.3 million decrease in acquisition-related costs due to professional services fees and other direct transaction costs incurred in the prior year related to the HD Vest acquisition.

### *Nine months ended September 30, 2016 compared with nine months ended September 30, 2015*

G&A expenses increased, of which \$9.6 million was attributable to HD Vest (excluding stock-based compensation) and related to the timing of the HD Vest acquisition. The remaining increase primarily was due to a \$3.4 million net increase in personnel expenses, which was affected by the same factors described above that impacted the quarterly period and offset by lower headcount. These increases were offset by a \$0.9 million net decrease in acquisition-related costs due to professional services fees and other direct transaction costs incurred in the prior year related to the HD Vest acquisition, offset by changes in the fair value of the SimpleTax contingent consideration liability, which was revalued in the second quarter of 2016.

## Depreciation and Amortization of Acquired Intangible Assets

(In thousands, except percentages)	Three months ended September 30,			Nine months ended September 30,		
	2016	2015	Change	2016	2015	Change
Depreciation	\$ 968	\$ 394	\$ 574	\$ 2,906	\$ 1,101	\$ 1,805
Amortization of acquired intangible assets	8,297	3,195	5,102	24,929	9,566	15,363
Total	\$ 9,265	\$ 3,589	\$ 5,676	\$ 27,835	\$ 10,667	\$ 17,168
Percentage of revenues	11%	125%		8%	9%	

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.

### *Three months ended September 30, 2016 compared with three months ended September 30, 2015*

Depreciation increased primarily due to depreciation expense on HD Vest fixed assets.

Amortization of acquired intangible assets increased primarily due to amortization expense on HD Vest acquisition-related intangible assets.

### *Nine months ended September 30, 2016 compared with nine months ended September 30, 2015*

Depreciation and amortization of acquired intangible assets were affected by the same factors described above that impacted the quarterly period.

**Other Loss, Net**

<u>(In thousands)</u>	Three months ended September 30,			Nine months ended September 30,		
	2016	2015	Change	2016	2015	Change
Interest income	\$ (18)	\$ (170)	\$ 152	\$ (54)	\$ (430)	\$ 376
Interest expense	7,824	2,203	5,621	25,396	6,833	18,563
Amortization of debt issuance costs	413	286	127	1,440	842	598
Accretion of debt discounts	1,099	975	124	3,599	2,873	726
(Gain) loss on debt extinguishment and modification expense	2,205	—	2,205	(641)	—	(641)
Gain on third party bankruptcy settlement	(84)	(224)	140	(128)	(1,066)	938
Other	14	10	4	271	57	214
Other loss, net	\$ 11,453	\$ 3,080	\$ 8,373	\$ 29,883	\$ 9,109	\$ 20,774

*Three months ended September 30, 2016 compared with three months ended September 30, 2015*

The increase in interest expense, amortization of debt issuance costs, and accretion of debt discounts primarily related to the TaxAct - HD Vest 2015 credit facility, which was entered into in December 2015.

The increase in loss on debt extinguishment and modification expense related to the prepayment of a portion of the TaxAct - HD Vest 2015 credit facility in the third quarter of 2016, which resulted in the write-down of a portion of the unamortized debt discount and issuance costs.

The gain on third party bankruptcy settlement related to amounts received in connection with ongoing distributions from the Lehman Brothers estate, of which we are a creditor.

*Nine months ended September 30, 2016 compared with nine months ended September 30, 2015*

Interest expense, amortization of debt issuance costs, accretion of debt discounts, and gain on third party bankruptcy settlement were affected by the same factors described above that impacted the quarterly period.

The gain on debt extinguishment and modification expense primarily related to the repurchase of a portion of the Convertible Senior Notes below par value during the first quarter of 2016. This was offset by a loss on debt extinguishment and modification expense related to the prepayment of a portion of the TaxAct - HD Vest 2015 credit facility in 2016, which resulted in the write-down of a portion of the unamortized debt discount and issuance costs. Further detail is as follows:

<u>(In thousands)</u>	Three months ended September 30,			Nine months ended September 30,		
	2016	2015	Change	2016	2015	Change
Gain on Convertible Senior Notes repurchased	\$ —	\$ —	\$ —	\$ (7,724)	\$ —	\$ (7,724)
Accelerated accretion of debt discount on Convertible Senior Notes	—	—	—	1,628	—	1,628
Accelerated amortization of debt issuance costs on Convertible Senior Notes	—	—	—	416	—	416
Accelerated accretion of debt discount and amortization of debt issuance costs on TaxAct - HD Vest 2015 credit facility	2,205	—	2,205	5,039	—	5,039
Total (gain) loss on debt extinguishment and modification expense	\$ 2,205	\$ —	\$ 2,205	\$ (641)	\$ —	\$ (641)

**Income Taxes**

We recorded income tax benefit of \$8.5 million and 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. We recorded income tax benefit of \$6.9 million and expense of \$5.1 million in the three and nine months ended September 30, 2015, respectively. Income taxes did not differ materially from taxes at the statutory rates in 2015.

### Discontinued Operations, Net of Income Taxes

(In thousands)	Three months ended September 30,			Nine months ended September 30,		
	2016	2015	Change	2016	2015	Change
Discontinued operations, net of income taxes	\$ (40,528)	\$ 1,597	\$ (42,125)	\$ (57,981)	\$ 7,122	\$ (65,103)

On October 14, 2015, we announced our Strategic Transformation, which includes 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 depreciation, amortization, stock-based compensation, income taxes, and other corporate expenses that were attributable to the Search and Content and E-Commerce businesses. In addition, discontinued operations included a loss on classification as held-for-sale of \$29.5 million and \$46.5 million for the three and nine months ended September 30, 2016, respectively, to record net assets at their fair value less cost to sell.

On August 9, 2016, we closed on an agreement with 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. As a result, we recognized a \$21.6 million loss on sale of discontinued operations for the nine months ended September 30, 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. For a discussion of the risks associated with these pending divestitures, 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, 2015.

### NON-GAAP FINANCIAL MEASURES

*Adjusted EBITDA:* We define Adjusted EBITDA differently for this report than we have defined it in the past, due to the impact of noncontrolling interests from the HD Vest acquisition that we began recognizing in the first quarter of 2016, the discontinued operations treatment of our Search and Content and E-Commerce businesses as determined in the fourth quarter of 2015, and acquisition-related costs in connection with the HD Vest and SimpleTax acquisitions that we would not have otherwise incurred as part of our business operations. 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 HD Vest acquisition closed in the fourth quarter of 2015 and resulted in significant transaction costs. The SimpleTax acquisition included contingent consideration, for which the fair value of that liability was revalued in the second quarter of 2016. We define Adjusted EBITDA as operating income (loss), determined in accordance with GAAP, excluding the effects of depreciation, amortization of acquired intangible assets (including acquired technology), stock-based compensation, and acquisition-related costs.

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 operating income (loss), which we believe to be the most comparable GAAP measure, is presented below:

<u>(In thousands)</u>	<u>Three months ended September 30,</u>		<u>Nine months ended September 30,</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Operating income (loss)	\$ (10,508)	\$ (16,054)	\$ 51,292	\$ 23,871
Stock-based compensation	3,364	2,074	10,616	5,974
Depreciation and amortization of acquired intangible assets	9,483	5,691	29,080	16,863
Acquisition-related costs	—	1,314	391	1,314
Adjusted EBITDA	\$ 2,339	\$ (6,975)	\$ 91,379	\$ 48,022

*Three months ended September 30, 2016 compared with three months ended September 30, 2015*

The increase in Adjusted EBITDA primarily was due to an increase in segment operating income of \$11.6 million related to our Wealth Management segment, offset by a decrease in segment operating income of \$1.8 million related to our Tax Preparation segment. Also offsetting the increase in Adjusted EBITDA was a \$0.5 million increase in corporate operating expenses not allocated to the segments.

*Nine months ended September 30, 2016 compared with nine months ended September 30, 2015*

The increase in Adjusted EBITDA primarily was due to increases in segment operating income of \$32.5 million and \$11.5 million related to our Wealth Management and Tax Preparation segments, respectively. Offsetting the increase in Adjusted EBITDA was a \$0.6 million increase in corporate operating expenses not allocated to the segments.

*Non-GAAP net income (loss)* : We define non-GAAP net income (loss) differently for this report than we have defined it in the past, due to the impact of noncontrolling interests from the HD Vest acquisition that we began recognizing in the first quarter of 2016, the discontinued operations treatment of our Search and Content and E-Commerce businesses as determined in the fourth quarter of 2015, and acquisition-related costs in connection with the HD Vest and SimpleTax acquisitions that we would not have otherwise incurred as part of our business operations. Acquisition-related costs are described further under *Adjusted EBITDA* above. For this report, we define non-GAAP net income (loss) as net income (loss) attributable to Blucora, Inc., determined in accordance with GAAP, excluding the effects of 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, gain on Convertible Senior Notes repurchased, acquisition-related costs, discontinued operations, the impact of noncontrolling interests, and the related cash tax impact of those adjustments, and non-cash income taxes. 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:



<u>(In thousands, except per share amounts)</u>	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Net income (loss) attributable to Blucora, Inc.	\$ (54,119)	\$ (10,611)	\$ (45,897)	\$ 16,740
Discontinued operations, net of income taxes	40,528	(1,597)	57,981	(7,122)
Stock-based compensation	3,364	2,074	10,616	5,974
Amortization of acquired intangible assets	8,346	5,106	25,694	15,202
Accretion of debt discount on Convertible Senior Notes	901	975	2,749	2,873
Accelerated accretion of debt discount on Convertible Senior Notes	—	—	1,628	—
Gain on Convertible Senior Notes repurchased	—	—	(7,724)	—
Acquisition-related costs	—	1,314	391	1,314
Impact of noncontrolling interests	167	—	426	—
Cash tax impact of adjustments to GAAP net income	(17)	(196)	244	(297)
Non-cash income tax (benefit) expense	(9,312)	(6,984)	6,460	4,970
Non-GAAP net income (loss)	\$ (10,142)	\$ (9,919)	\$ 52,568	\$ 39,654
<i>Per diluted share:</i>				
Net income (loss) attributable to Blucora, Inc.	\$ (1.30)	\$ (0.26)	\$ (1.08)	\$ 0.40
Discontinued operations, net of income taxes	0.97	(0.04)	1.37	(0.17)
Stock-based compensation	0.08	0.05	0.25	0.14
Amortization of acquired intangible assets	0.21	0.13	0.60	0.37
Accretion of debt discount on Convertible Senior Notes	0.02	0.02	0.06	0.07
Accelerated accretion of debt discount on Convertible Senior Notes	—	—	0.04	—
Gain on Convertible Senior Notes repurchased	—	—	(0.18)	—
Acquisition-related costs	—	0.03	0.01	0.03
Impact of noncontrolling interests	0.00	—	0.01	—
Cash tax impact of adjustments to GAAP net income	(0.00)	(0.00)	0.01	(0.01)
Non-cash income tax (benefit) expense	(0.22)	(0.17)	0.15	0.12
Non-GAAP net income (loss)	\$ (0.24)	\$ (0.24)	\$ 1.24	\$ 0.95
Weighted average shares outstanding used in computing per diluted share amounts	41,635	40,950	42,329	41,911

*Three months ended September 30, 2016 compared with three months ended September 30, 2015*

The increase in non-GAAP net loss primarily was due to (i) a \$5.9 million increase in interest expense, amortization of debt issuance costs, and accretion of debt discounts, mainly related to the TaxAct - HD Vest 2015 credit facility, which was entered into in December 2015, (ii) a \$2.2 million loss on debt extinguishment and modification expense, related to the prepayment of a portion of the TaxAct - HD Vest 2015 credit facility in the third quarter of 2016, (iii) a \$0.6 million increase in depreciation expense, mainly related to depreciation expense on HD Vest fixed assets, (iv) a \$0.5 million increase in cash income tax expense, mainly related to the addition of HD Vest, and (v) a \$0.5 million increase in corporate operating expenses not allocated to the segments. Further contributing was a decrease in segment operating income of \$1.8 million related to our Tax Preparation segment, offset by an increase in segment operating income of \$11.6 million related to our Wealth Management segment.

*Nine months ended September 30, 2016 compared with nine months ended September 30, 2015*

The increase in non-GAAP net income primarily was due to increase s in segment operating income of \$32.5 million and \$11.5 million related to our Wealth Management and Tax Preparation segments, respectively. This was offset by (i) a \$20.0 million increase in interest expense, amortization of debt issuance costs, and accretion of debt discounts, mainly related to the TaxAct - HD Vest 2015 credit facility, which was entered into in December 2015, (ii) a \$5.5 million loss on debt extinguishment and modification expense, mainly related to the prepayment of a portion of the TaxAct - HD Vest 2015 credit facility in 2016, (iii) a \$1.7 million increase in depreciation expense, mainly related to depreciation expense on HD Vest fixed assets, (iv) a \$1.7 million increase in cash income tax expense, mainly related to the addition of HD Vest, (v) a \$0.9 million

decrease in gain on third party bankruptcy settlement, and (vi) a \$0.6 million increase in corporate operating expenses not allocated to the segments.

## 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, 2016, we had cash and marketable investments of approximately \$75.7 million, consisting of cash and cash equivalents of \$71.2 million and available-for-sale investments of \$4.5 million. 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, 2016 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, 2015.

### **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 returning capital to shareholders, or for acquiring companies or assets that complement our Wealth Management and Tax Preparation businesses.

On October 14, 2015, we announced our Strategic Transformation, which refers to our transformation into a technology-enabled financial solutions company comprised of TaxAct and HD Vest, plans to divest our Search and Content and E-Commerce businesses, and plans to reduce corporate operating expenses. We also expect our capital allocation priority in the near-term to be to pay down debt, which includes using all of the net divestiture proceeds from the sales of the Search and Content business and the E-Commerce business to pay down the new TaxAct - HD Vest 2015 credit facility. See the "Strategic Transformation" subsection above for additional detail regarding the related use of cash.

On December 31, 2015, TaxAct and HD Vest entered into an agreement for the purposes of financing the HD Vest acquisition and providing future working capital flexibility for TaxAct and HD Vest. The credit facility consists of a \$25.0 million revolving credit loan and a \$400.0 million term loan for an aggregate \$425.0 million credit facility. The final maturity dates of the revolving credit loan and term loan are December 31, 2020 and December 31, 2022, 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 to EBITDA ratio, which are defined further in the agreement. We were in compliance with these covenants as of September 30, 2016. TaxAct and HD Vest initially borrowed \$400.0 million under the term loan and had repayment activity of \$105.0 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.

On August 30, 2013, TaxAct entered into an agreement to refinance a 2012 credit facility on more favorable terms. TaxAct had repayment activity of \$51.9 million during the nine months ended September 30, 2015. This credit facility was repaid in full in the second quarter of 2015 and subsequently closed.

On March 15, 2013, we issued \$201.25 million principal amount of Convertible Senior Notes (the "*Notes*") and received net proceeds from the offering of approximately \$194.8 million. There are no financial or operating covenants relating to the Notes. The Notes mature April 1, 2019, unless earlier purchased, redeemed, or converted in accordance with their terms. During the nine months ended September 30, 2016, we repurchased \$28.4 million of the Notes' principal for cash of \$20.7 million. The Notes bear interest at a rate of 4.25% per year, payable semi-annually in arrears beginning on October 1, 2013. As of May 2013, we are permitted to settle any conversion obligation under the Notes in cash, shares of our common stock, or a combination of cash and shares of our common stock, at our election. We expect to have the liquidity to satisfy conversion of the Notes' principal for cash based upon cash on hand, net cash flows from operations, and cash available through the credit

facility. We intend to satisfy any conversion premium by issuing shares of our common stock. For further detail, see "Note 7: Debt" of the Notes to Unaudited Condensed Consolidated Financial Statements in Part I Item 1 of this report.

Our Board of Directors approved a stock repurchase program whereby we could purchase our common stock in open-market transactions. The repurchase period concluded in May 2016. During the nine months ended September 30, 2016, we purchased no shares. During the nine months ended September 30, 2015, we purchased 0.5 million shares at a total cost of approximately \$7.0 million and an average price of \$14.46 per share, exclusive of purchase and administrative costs. For further detail, see "Note 10: Stockholders' Equity" of the Notes to Unaudited Condensed Consolidated Financial Statements in Part I Item 1 of this report.

On July 2, 2015, TaxAct acquired SimpleTax for C\$2.4 million (with C\$ indicating Canadian dollars and amounting to approximately \$1.9 million based on the acquisition-date exchange rate) in cash and additional consideration of up to C\$4.6 million (\$3.7 million) that is contingent upon product availability and revenue performance over a three-year period.

#### *Contractual Obligations and Commitments*

Except for the debt repayments and repurchases (as disclosed in "Note 7: Debt" of the Notes to Unaudited Condensed Consolidated Financial Statements in Part I Item 1 of this report) and sublease income (related to the sublease agreement with InfoSpace as disclosed in "Note 4: Discontinued Operations" of the Notes to Unaudited Condensed Consolidated Financial Statements in Part I Item 1 of this report), there have been no material changes during the period covered by this Quarterly Report on Form 10-Q, outside of the ordinary course of our business, to the contractual obligations and commitments specified in "Note 9: Commitments and Contingencies" in Part II Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2015.

#### *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:

<u>(In thousands)</u>	<u>Nine months ended September 30,</u>	
	<u>2016</u>	<u>2015</u>
Net cash provided by operating activities from continuing operations	\$ 70,095	\$ 20,946
Net cash provided by investing activities from continuing operations	2,225	15,488
Net cash used by financing activities from continuing operations	(103,202)	(28,002)
Net cash provided (used) by continuing operations	(30,882)	8,432
Net cash provided by discontinued operations	46,589	912
Effect of exchange rate changes on cash and cash equivalents	(15)	(6)
Net increase in cash and cash equivalents	<u>\$ 15,692</u>	<u>\$ 9,338</u>

*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 \$70.1 million and \$20.9 million for the nine months ended September 30, 2016 and 2015, respectively. The activity in the nine months ended September 30, 2016 included a \$46.8 million working capital contribution and approximately \$23.3 million of income from continuing operations (offset by non-cash adjustments). The working capital contribution continued to be driven by accrued expenses and the impact of excess tax benefits from stock-based activity primarily due to utilizing equity net operating loss carryforwards from prior years. In addition, 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). Lastly, the addition of HD Vest provided further working capital contribution during the period.

The activity in the nine months ended September 30, 2015 included a \$37.3 million working capital contribution offset by approximately \$16.3 million of income from continuing operations and non-cash adjustments. The working capital contribution was driven by accrued expenses and the impact of excess tax benefits from stock-based activity and also was affected by decreases in prepaid expenses and other current assets due to the timing of TaxAct's spending on marketing campaigns for the tax season.

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

Net cash provided by investing activities was \$2.2 million and \$15.5 million for the nine months ended September 30, 2016 and 2015, respectively. The activity in the nine months ended September 30, 2016 consisted of net cash inflows on our available-for-sale investments of \$6.7 million offset by approximately \$2.6 million in purchases of property and equipment and payment of the \$1.8 million final working capital adjustment on the HD Vest acquisition. The activity in the nine months ended September 30, 2015 consisted of net cash inflows on our available-for-sale investments of \$18.1 million offset by approximately \$1.7 million for the acquisition of SimpleTax and \$0.9 million in purchases of property and equipment.

*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 tend to fluctuate from period to period based upon our financing needs due to the level of acquisition activity and market conditions that present favorable financing opportunities.

Net cash used by financing activities was \$103.2 million and \$28.0 million for the nine months ended September 30, 2016 and 2015, respectively. 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 \$21.4 million in excess tax benefits from stock-based award activity primarily due to utilizing equity net operating loss carryforwards from prior years and \$2.5 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, 2015 primarily consisted of payments of \$51.9 million on the TaxAct credit facility (which was closed in 2015), stock repurchases of \$7.1 million, and \$1.2 million in tax payments from shares withheld for equity awards. These cash outflows were offset by approximately \$28.6 million in excess tax benefits from stock-based award activity primarily due to utilizing equity net operating loss carryforwards from prior years and \$3.6 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**

The preparation of financial statements in conformity with GAAP requires that we make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses, and disclosure of contingencies. We base our estimates on historical experience and other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates. Our critical accounting policies, estimates, and methodologies for the nine months ended September 30, 2016 were consistent with those in Part II Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2015, with the following update:

*Wealth management revenue recognition:* Wealth management revenue consists primarily of commission revenue, advisory revenue, asset-based revenue, and transaction and fee revenue. Revenue is recognized in the periods in which the related services are performed, provided that persuasive evidence of an arrangement exists, the fee is fixed or determinable, and collectibility is reasonably assured. Payments received in advance of the performance of service are deferred and recognized as revenue when earned.

We consider the nature of our contractual arrangements in determining whether to recognize certain types of wealth management revenue, primarily commission revenue and advisory revenue, on the basis of the gross amount billed or net amount retained after payments are made to providers of certain services related to the product or service offering. The main factors that we use to determine whether to record revenue on a gross or net basis are whether:

- we are primarily responsible for the service to the financial advisor and their client;

- we have discretion in establishing fees paid by the client and fees due to the third-party service provider; and
- we are involved in the determination of product or service specifications.

When client fees include a portion of charges that are paid to another party and we are primarily responsible for providing the service to the client, revenue is recognized on a gross basis in an amount equal to the fee paid by the client. The cost of revenue recognized is the amount due to the other party. In instances in which another party is primarily responsible for providing the service to the client, we recognize revenue based on the net amount that we retain. The portion of the fees that we collect from the client and remit to the other party are considered pass-through amounts and are not a component of revenue or cost of revenue.

Further details of wealth management revenue are as follows:

- *Commission revenue* - Commissions represent amounts generated by HD Vest's financial advisors for their clients' purchases and sales of securities and various investment products. We generate two types of commissions: transaction-based sales commissions that occur at the point of sale, as well as trailing commissions for which we provide ongoing account support to clients of our financial advisors.

We record transaction-based sales commission revenue on a trade-date basis, which is when our performance obligations in generating the commissions have been substantially completed. Trailing commission revenue is based on a percentage of the current market value of clients' investment holdings in trail-eligible assets and recognized over the period during which services are performed. Since trailing commission revenue is generally paid in arrears, we estimate it based on a number of factors, including market levels and the amount of trailing commission revenues received in prior periods.

A substantial portion of commission revenue is ultimately paid to financial advisors. We record an estimate for transaction-based commissions payable based upon the payout rate of the financial advisor generating the accrued commission revenue. We record an estimate for trailing commissions payable based upon historical payout ratios. Such amounts are recorded as "Commissions and advisory fees payable" on the consolidated balance sheets and "Wealth management services cost of revenue" on the consolidated statements of comprehensive income.

- *Advisory revenue* - Advisory revenue includes fees charged to clients in advisory accounts where HD Vest is the RIA. These fees are based on the value of assets within these advisory accounts. A substantial portion of these advisory fees are paid to the related financial advisor and these payments are classified as "Wealth management services cost of revenue" in the consolidated statements of comprehensive income.
- *Asset-based revenue* - Asset-based revenue primarily includes fees from financial product manufacturer sponsorship programs and cash sweep programs and are recognized ratably over the period in which services are provided.
- *Transaction and fee revenue* - We charge fees for executing certain transactions in client accounts. Transaction-related charges are recognized on a trade-date basis. Other fees relate to services provided and other account charges as generally outlined in agreements with financial advisors, clients, and financial institutions. Such fees are recognized as services are performed or as earned, as applicable.

### **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, 2016. For additional information, see Part II Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2015.

#### Item 4. Controls and Procedures

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

Our management evaluated, with the participation of our Chief Executive Officer and our Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective at providing reasonable assurance that information we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934 is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure, and that such information is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms.

##### *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 2016 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

We acquired HD Vest on December 31, 2015. We are still assessing the internal controls of HD Vest but do not believe those controls have materially affected, or are likely to materially affect, our internal controls 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, 2015 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 Company's Form 10-K other than as follows:

##### **Final ERISA fiduciary regulations issued by the Department of Labor ("DOL") could have a material adverse impact on our financial condition and results of operations.**

In April 2016, the DOL issued final regulations changing the definition of who is a fiduciary under the Employee Retirement Income Security Act of 1974, as amended ("**ERISA**"), and specifying how such fiduciaries must provide investment advice to account holders in ERISA plans, individual retirement accounts ("**IRAs**"), and certain other types of accounts described in the Internal Revenue Code (collectively, "**Covered Accounts**"). Over the past several quarters, IRAs made up approximately half of HD Vest's assets under administration. The new DOL regulations focus on conflicts of interest related to investment recommendations made by financial advisors to clients holding Covered Accounts. The rules bring virtually all of the investment products and services HD Vest currently provides to IRA owners within the scope of ERISA. The rules, the applicability of which are phased in between April 10, 2017 and January 1, 2018, will require HD Vest to either: (1) subject such 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 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.

The final regulations will impact how HD Vest designs investment products and services for Covered Accounts, how we receive fees, and how we compensate our advisors. The regulations will impact how we are able to recruit and retain financial advisors and will require us 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 new rules, will likely lead to increased regulatory scrutiny and litigation related to the provision of investment advice to IRA and ERISA investors. HD Vest's management team is devoting and expects to continue to devote substantial time and resources to assess the new rules, implement required policies and procedures, and develop and execute a business strategy

in light of such rules, 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 new DOL rules 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 these new regulations may also have a material adverse effect on our financial condition and results of operations.

**If we are unable to hire, retain, and motivate highly qualified employees, including our key employees, we may not be able to successfully manage our businesses.**

Our future success depends on our ability to identify, attract, hire, retain, and motivate highly skilled management, technical, sales and marketing, and corporate development personnel, including personnel with experience and expertise in the wealth management, tax preparation, and technology industries to support our new strategic focus. Qualified personnel with experience relevant to our businesses are scarce, and competition to recruit them is intense. If we fail to successfully hire and retain a sufficient number of highly qualified employees, we may have difficulties in supporting or expanding our businesses. Realignment of resources, reductions in workforce, or other operational decisions have created and could continue to create an unstable work environment and may have a negative effect on our ability to hire, retain, and motivate employees.

Our business and operations are substantially dependent on the performance of our key employees. Changes of management or key employees may disrupt operations, which may materially and adversely affect our business and financial results or delay achievement of our business objectives. In addition, if we lose the services of one or more key employees and are unable to recruit and retain a suitable successor, we may not be able to successfully and timely manage our business or achieve our business objectives. There can be no assurance that any retention program we initiate will be successful at retaining employees, including key employees. As part of the relocation of our corporate headquarters to Irving, Texas, we expect to replace nearly all of our corporate employees, with the exception of our Chief Executive Officer and certain positions that will be eliminated as part of our restructure. We will engage in a search process to identify, evaluate and select new employees for each position moving to Texas, but there can be no assurance that we will fill every position in a timely manner or at all. In addition, while we have put an enhanced retention program in place to ensure the orderly transition of our key employees, there can be no assurance that the retention program will be successful at retaining our key employees through the move date. The loss of key employees before a suitable replacement is in place may disrupt operations, which may materially and adversely affect our business and financial results.

We use stock options, restricted stock units, and other equity-based awards to recruit and retain senior level employees. With respect to those employees to whom we issue such equity-based awards, we face a significant challenge in retaining them if the value of equity-based awards in aggregate or individually is either not deemed by the employee to be substantial enough or deemed so substantial that the employee leaves after their equity-based awards vest. If our stock price does not increase significantly above the exercise prices of our options, we may need to issue new equity-based awards in order to motivate and retain our key employees. We may undertake or seek stockholder approval to undertake other equity-based programs to retain our employees, which may be viewed as dilutive to our stockholders or may increase our compensation costs. There can be no assurance that any such programs, if approved by stockholders, or any other incentive programs, would be successful in motivating and retaining our employees.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

See "Note 10: Stockholders' Equity" of the Notes to Unaudited Condensed Consolidated Financial Statements in Part I Item 1 of this report for additional information regarding the Company's stock repurchase program. There was no share repurchase activity during the third quarter of 2016 .

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

On October 27, 2016, the Company announced that it anticipates relocating its headquarters to the State of Texas during 2017. In connection with the anticipated relocation, on October 25, 2016, the Company entered into amendments to its employment agreements with each of Eric M. Emans and Mark A. Finkelstein, (each an "Amendment" and together, the "Amendments"). The material terms of the Amendments are as follows:

**Eric M. Emans** . Mr. Emans' Amended and Restated Employment Agreement dated January 6, 2015, as amended, was further amended to clarify that, if during the calendar year 2017, the Company relocates its headquarters to the State of Texas or any other location that is more than 25 miles from Bellevue, Washington, and either (i) Mr. Emans' employment is terminated without cause, whether before or after the date of the relocation, or (ii) Mr. Emans does not relocate and terminates his employment with the Company on or after the relocation date, then, Mr. Emans will be entitled to the payment of certain severance benefits, accelerated vesting of outstanding equity awards, and the extension of the exercise period for all outstanding equity awards granted prior to October 25, 2016.

**Mark A. Finkelstein** . Mr. Finkelstein's Employment Agreement dated September 30, 2014, as amended, was further amended to clarify that, if during the calendar year 2017, the Company relocates its headquarters to the State of Texas or any other location that is more than 25 miles from Bellevue, Washington, and either (i) Mr. Finkelstein's employment is terminated without cause, whether before or after the date of the relocation, or (ii) Mr. Finkelstein does not relocate and terminates his employment with the Company on or after the relocation date, then, Mr. Finkelstein will be entitled to the payment of certain severance benefits, accelerated vesting of outstanding equity awards, and the extension of the exercise period for all outstanding equity awards granted prior to October 25, 2016.

The above descriptions are only a summary of the material terms of the Amendments, do not purport to be a complete description of the Amendments, and are qualified in their entirety by reference to the Amendment for Mr. Emans a copy of which is filed as Exhibit 10.4 and the Amendment for Mr. Finkelstein a copy of which is filed as Exhibit 10.5, each of which Amendment is incorporated herein by reference.

**Item 6. Exhibits**

See exhibits listed under the Index to Exhibits below.



**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  
(Principal Financial Officer)

Date: October 27, 2016

## INDEX TO EXHIBITS

<b>Exhibit Number</b>	<b>Exhibit Description</b>	<b>Form</b>	<b>Date of First Filing</b>	<b>Exhibit Number</b>	<b>Filed Herewith</b>
2.1	Asset Purchase Agreement among Blucora, Inc., InfoSpace LLC, InfoSpace Holdings LLC and OpenMail LLC dated July 1, 2016	8-K	July 5, 2016	2.1	
10.1 *	Amendment No. 2 to Employment Agreement dated October 6, 2014, as amended January 22, 2016 between Blucora, Inc., InfoSpace LLC and Peter Mansour	8-K	July 5, 2016	10.1	
10.2 *	Transition, Separation and Release Agreement dated June 29, 2016 between JoAnn Kintzel, Blucora, Inc. and TaxAct, Inc.	8-K	July 1, 2016	10.1	
10.3 *	Second Amended and Restated Employment Agreement dated August 9, 2016, by and between Project Baseball Sub, Inc. and Roger Ochs.				X
10.4 *	Amendment No. 2 to Amended and Restated Employment Agreement by and between Blucora, Inc. and Eric M. Emans dated January 6, 2015, as amended.				X
10.5 *	Amendment No. 2 to Employment Agreement by and between Blucora, Inc. and Mark A. Finkelstein dated September 30, 2014, as amended.				X
10.6 *	Amendment No. 1 to Blucora, Inc. 2016 Inducement Plan	S-8	October 14, 2016	99.1	
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				X
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				X
32.1	Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				X
32.2	Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				X
101	The following financial statements from the Company's 10-Q for the fiscal quarter ended September 30, 2016, 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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\* Indicates a management contract or compensatory plan or arrangement.

## SECOND AMENDED AND RESTATED EMPLOYMENT AGREEMENT

This Second Amended and Restated Employment Agreement (the “*Agreement*”) is entered into this 9th day of August, 2016, and was effective as of January 1, 2016 (the “*Effective Date*”), by and between Project Baseball Sub, Inc., a Delaware corporation (the “*Purchaser*”) and Roger Ochs (“*Executive*”) (together, the “*Parties*”). Except as otherwise indicated herein, capitalized terms used herein are defined in Section 9.14.

WHEREAS, HDV Holdings, LLC, a Delaware Limited Liability Corporation (the “*Seller*”), and the Purchaser are parties to that certain Stock Purchase Agreement (as amended, the “*Purchase Agreement*”) to be executed contemporaneously with this Agreement, whereby the Purchaser will acquire 100% of the stock of HDV Holdings, Inc. (the “*Company*”);

WHEREAS, the Purchaser is a wholly owned indirect subsidiary of Blucora, Inc. (the “*Parent*”);

WHEREAS, it is a condition to the consummation of the transactions contemplated by the Purchase Agreement (the “*Acquisition*”) that this Agreement be in full force and effect on the Effective Date; and

WHEREAS, the Purchaser desires that Executive be employed by H.D. Vest, Inc., a Texas corporation (the “*Employer*”) on the terms and conditions set forth herein, and Executive is willing to accept such employment on such terms and conditions.

NOW, THEREFORE, in consideration of the mutual covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

### 1. Employment and Acceptance

The Employer shall employ Executive, and Executive shall accept employment, subject to the terms of this Agreement, effective as of the Effective Date and ending as provided in Section 2 below.

### 2. Term

Subject to earlier termination pursuant to Section 5 of this Agreement, the employment relationship hereunder shall continue from the Effective Date until the third (3rd) anniversary of the Effective Date (the “*Initial Employment Period*”), at which point this Agreement shall terminate unless extended by mutual written agreement by the Parties. As used in this Agreement, the “*Employment Period*” shall refer to the period beginning on the Effective Date

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and ending on the date Executive's employment is terminated in accordance with this Section 2 or Section 5, as the case may be.

### **3. Duties and Title**

**3.1 Title** . Executive shall serve in the capacity of Chief Executive Officer of the Employer (the “ **CEO** ”) and shall report directly to the Chief Executive Officer of the Parent.

**3.2 Duties** . Executive shall devote Executive's best efforts and full business time and attention to the business and affairs of the Employer and, to the extent requested, the Parent, and shall have all of the duties, responsibilities, functions and authority implied by his position, subject to the power and authority of the Board of Directors of the Purchaser (the “ **Board** ”) to expand or limit such duties, responsibilities and authority at any time (including, without limitation, as a result of a geographical expansion of the Employer's business activities), and to overrule actions of officers of the Employer. Executive shall perform such Executive's duties, responsibilities and functions to the Employer or any other member of the Parent hereunder to the best of Executive's abilities in a diligent, trustworthy, professional and efficient manner and shall comply with the policies and procedures of the Employer and the Parent in all material respects. In performing Executive's duties and exercising Executive's authority under this Agreement, Executive shall support and implement the business and strategic plans approved from time to time by the Board or the board of managers of Parent and shall support and cooperate with the efforts of the members of the Parent to expand their businesses and operate profitably and in conformity with the business and strategic plans approved by the board of managers of the Parent. So long as Executive is employed by the Employer, Executive shall not, without the prior written consent of the Board (which consent shall not be unreasonably withheld by the Board), serve as a director of any other entity; provided that Executive may serve as a director of educational, welfare, social, religious and civic organizations without the prior consent of the Board so long as Executive is not compensated for such activities and such activities do not materially interfere with Executive's employment with the Employer and its Subsidiaries.

### **4. Salary, Bonus and Benefits by the Employer**

As compensation for services rendered pursuant to this Agreement, the Employer shall provide Executive the following during the Employment Period:

**4.1 Salary** . During the Employment Period, Executive's base salary shall be \$400,000.00 per annum and shall be subject to review and adjustment by the Board on an annual basis (as adjusted from time to time, the “ **Base Salary** ”), which salary shall be payable by the Employer in regular installments in accordance with the Employer's general payroll practices (in

effect from time to time). Executive's Base Salary for any partial year shall be pro-rated based upon the actual number of days elapsed in such year.

**4.2 Bonus** . For each calendar year during the Employment Period, Executive shall (a) receive an annual bonus in an amount equal to 100% of the Base Salary, conditioned upon achievement by the Employer and its Subsidiaries of financial, operating and other objectives set by the Board (which may be based on any criteria determined by the Board in consultation with Executive) (collectively, the "*Performance Metrics*") for such calendar year, as reasonably determined by the Board, and (b) be eligible for an additional annual bonus in an amount up to \$200,000, as determined by the Board, conditioned upon the Employer and its Subsidiaries exceeding the Performance Metrics to a degree set by the Board for such calendar year; provided that any bonus shall be paid in the calendar year following the calendar year to which the bonus relates and within ten (10) business days of the date on which the final audit for such calendar year is issued by Employer's independent accountants but in no event later than December 31st following the calendar year to which the bonus relates.

**4.3 Participation in Employee Benefit Plans** . In addition to (but without duplication of) the Base Salary and any bonuses described above payable to Executive pursuant to this Section 4, during the Employment Period, Executive shall be entitled to (a) up to 5 weeks of paid time off per year to be taken in accordance with the Employer's then current policy, and (b) subject to applicable eligibility requirements, such other benefit plans of the Employer as approved by the Board, which may be available to other similarly situated executives of the Employer, pursuant to the terms of such plans and on the same terms as other similarly situated executives of the Employer.

**4.4 Expense Reimbursement** . During the Employment Period, the Employer shall reimburse Executive for all reasonable out-of-pocket business expenses incurred by Executive in the course of performing Executive's duties and responsibilities under this Agreement which are consistent with the Employer's policies in effect from time to time with respect to travel, entertainment and other business expenses, subject to the Employer's requirements with respect to reporting and documentation of such expenses.

## **5. Termination of Employment**

**5.1 Termination by Executive without Good Reason** . Executive may terminate the Employment Period by resigning upon prior written notice delivered to the Board effective as of the date set forth in such notice. If Executive terminates employment pursuant to this Section 5.1, Executive shall be entitled to receive the following: (a) Executive's earned, accrued but unpaid Base Salary as of the date of termination; (b) benefits set forth in Section 4.3(b) through the date of termination, if any, in accordance with the terms of the benefit plans in which Executive participates as of the date of termination; (c) Executive's accrued but unused

and unpaid paid time off (to the extent payable in accordance with Employer's then current policies), if any, as of the date of termination; and (d) expenses reimbursable under Section 4.4 incurred but not yet reimbursed to Executive as of the date of termination.

**5.2 Involuntary Termination by the Employer without Cause or Termination by Executive with Good Reason .** The Employment Period may be terminated by the Board without Cause upon prior written notice delivered to Executive, or by Executive with Good Reason upon prior written notice delivered to Employer, in each case effective as of the date set forth in such notice. In the event of termination pursuant to this Section 5.2, Executive shall be entitled to receive the following: (a) Executive's earned, accrued but unpaid (x) Base Salary as of the date of termination and (y) cash bonus (if any) pursuant to Section 4.2 with respect to the calendar year ending on or preceding the date of termination, which bonus (if any) will be paid at the same time bonuses are paid pursuant to Section 4.2; (b) benefits set forth in Section 4.3(b) through the date of termination, if any, in accordance with the terms of the benefit plans in which Executive participates as of the date of termination; (c) Executive's accrued but unused and unpaid paid time off (to the extent payable in accordance with Employer's then current policies), if any, as of the date of termination; (d) expenses reimbursable under Section 4.4 incurred but not yet reimbursed to Executive as of the date of termination; (e) in the event that (x) each of the Employer and Executive would achieve their respective financial, operating and other objectives necessary for a bonus to be payable pursuant to Section 4.2 (as determined by the Board) in the calendar year in which the termination of the Employment Period occurs after such objectives of each of the Employer and Executive actually achieved during such applicable calendar year through (and including) the date of termination of the Employment Period are annualized, and (y) the termination of the Employment Period pursuant to this Section 5.2 occurs no earlier than 120 days after the beginning of such applicable calendar year, a pro rata portion (based on the number of actual days which have elapsed during such applicable calendar year prior to termination of the Employment Period) of the cash bonus (if any) that Executive would otherwise have been entitled pursuant to Section 4.2 had Executive been continuously employed by the Employer through the end of such calendar year (and such bonus shall be payable at any time after completion of the audit for such calendar year, but in any event in the calendar year following the calendar year to which the bonus relates); (f) for a period of eighteen (18) months beginning on the date of termination of Executive's employment pursuant to this Section 5.2, Executive shall be entitled to receive two times Executive's Base Salary as in effect immediately prior to the date of the termination of Executive's employment, payable in installments in accordance with the customary payroll practices of the Employer in effect on the date of termination, and (g) a lump-sum payment in an amount equal to (x) the monthly COBRA premium in effect under the Company's group health plan as of the date of termination for the coverage in effect under such plan for Executive (and Executive's spouse and dependent children) on such date multiplied by (y) twelve (12) (less applicable withholding taxes), which

amount shall be payable in a single lump sum on the first payroll date that is at least sixty (60) days following the date of termination (but, in any event, by no later than March 15 of the calendar year immediately following the calendar year that includes the date of termination), in accordance with Section 6.3; provided, however, that notwithstanding the foregoing or any other provision in this Agreement to the contrary, the Company (or its successor) may unilaterally amend this Section 6(d)(ii) or eliminate the benefit provided hereunder to the extent it deems necessary to avoid the imposition of excise taxes, penalties or similar charges on the Company or any of its subsidiaries, affiliates or successors, including, without limitation, under Section 4980D of the Code; provided however, that such payments described in clauses (f) and (g) of this sentence shall commence upon the date provided in Section 6.3. It is agreed and understood that Executive shall be entitled to receive the amounts set forth in clauses (f) and (g) of this Section 5.2 if and only if Executive has executed and delivered to the Employer a general release in form and substance as set forth on **Exhibit A** attached hereto (the "General Release") within the time limitations set forth in Section 6.3, the General Release has become effective, and so long as Executive has not revoked or breached the provisions of the General Release within the time frame provided in Section 6 or breached the provisions of Section 7 or Section 8 or any other agreement between Executive and the Parent.

**5.3 Involuntary Termination by the Employer for Cause** . The Employment Period may be terminated by the Board for Cause at any time upon delivery to Executive of written notice effective on the date such notice is received by Executive, unless other date is specified in such notice). If Executive's employment is terminated by the Employer for Cause, Executive shall be entitled to receive only the payments and benefits set forth in subsections (a) through (d) of Section 5.1 .

**5.4 Termination Due to Death or Disability** . The Employment Period shall terminate automatically upon Executive's death or upon the Board's good faith determination of Executive's inability to perform the essential duties, responsibilities and functions of Executive's position with the Employer as a result of any mental or physical illness, disability or incapacity. If Executive's employment is terminated pursuant to this Section 5.4 , Executive or Executive's heirs shall be entitled to receive the same payments and benefits set forth in subsections (a) through (d) of Section 5.1 .

**5.5 Nonrenewal of Employment Period** . In the event Executive's employment ends because the Employer does not agree to extend either the Initial Employment Period or any other subsequent extension resulting from a mutual written agreement by the Parties, pursuant to Section 2, for any reason other than for Cause Executive shall be entitled to receive the same payments and benefits set forth in subsections (a) through (g) of Section 5.2 .

**5.6 No Other Benefits** . Except as otherwise expressly provided herein, Executive shall not be entitled to any other salary, bonuses, employee benefits or compensation from the

Employer or its Subsidiaries after the date of termination and all of Executive's rights to salary, bonuses, employee benefits and other compensation hereunder which would have accrued or become payable after the date of termination shall cease upon such termination or expiration, other than as expressly required under applicable law.

**5.7 Offset** . The Employer may offset any bona fide amounts not in dispute that Executive currently owes Parent or any of its Subsidiaries against any amounts it or any of its Subsidiaries owes Executive hereunder, except that no offset shall be made from any amount if the offset would violate the requirements of Section 409A of the Internal Revenue Code of 1986, as amended.

**5.8 Definition of Termination** . A termination of the Employment Period shall not be deemed to have occurred for purposes of any provision of this Agreement providing for the payment of any amounts or benefits upon or following a termination of employment unless such termination is also a "separation from service" within the meaning given in Treasury Regulation § 1.409A-1(h)(1)(ii), and for purposes of any such provision of this Agreement, references to a "termination", "termination of the Employment Period", "termination of employment" or similar terms shall mean "separation from service."

## **6. Section 409A Compliance**

**6.1 Intent** . The intent of the Parties is that payments and benefits under this Agreement comply with Internal Revenue Code Section 409A and the regulations and guidance promulgated thereunder (collectively "**Code Section 409A**") and, accordingly, to the maximum extent permitted, this Agreement shall be interpreted to be in compliance therewith. In no event whatsoever shall the Employer be liable for any additional tax, interest or penalty that may be imposed on Executive by Code Section 409A.

**6.2 Specified Employee** . Notwithstanding any other payment schedule provided herein to the contrary, if Executive is deemed on the date of termination to be a "specified employee" within the meaning of that term under Code Section 409A(a)(2)(B), then with regard to any payment that is considered deferred compensation under Code Section 409A payable on account of a "separation from service," such payment shall be made on the date which is the earlier of (a) the expiration of the six (6)-month period measured from the date of such "separation from service" of Executive, and (b) the date of Executive's death (the "**Delay Period**") to the extent required under Code Section 409A. Upon the expiration of the Delay Period, all payments delayed pursuant to this Section 6.2 (whether they would have otherwise been payable in a single sum or in installments in the absence of such delay) shall be paid to Executive in a lump sum with interest accruing commencing on the date payment would have otherwise been made at the prime rate of interest most recently published in *The Wall Street*



*Journal* as of such date, and all remaining payments due under this Agreement shall be paid or provided in accordance with the normal payment dates specified for them herein.

**6.3 Severance Payments Conditioned upon General Release** . Executive shall forfeit all rights to severance payments pursuant to this Agreement unless Executive duly executes and deliver the General Release to the Employer (and the General Release is no longer subject to revocation) within sixty (60) days following the date of Executive's termination of employment. If the foregoing release is executed and delivered and no longer subject to revocation as provided in the preceding sentence, then to the extent any such cash payment to be provided is not "deferred compensation" for purposes of Code Section 409A, such payment shall commence upon the first scheduled payment date immediately after the date the release is executed and no longer subject to revocation (the "**Release Effective Date** "). The first such cash payment shall include payment of all amounts that otherwise would have been due prior to the Release Effective Date under the terms of this Agreement applied as though such payments commenced immediately upon Executive's termination of employment, and any payments made thereafter shall continue as provided herein. To the extent any such payment to be provided is "deferred compensation" for purposes of Code Section 409A, then such payments or benefits shall be made or commence upon the sixtieth (60) day following Executive's termination of employment. The first such payment shall include payment of all amounts that otherwise would have been due prior thereto under the terms of this Agreement had such payments commenced immediately upon Executive's termination of employment, and any payments made thereafter shall continue as provided herein.

**6.4 Expense Reimbursement Payments** . To the extent that reimbursements or other in-kind benefits under this Agreement constitute "nonqualified deferred compensation" for purposes of Code Section 409A, (a) all expenses or other reimbursements hereunder shall be made on or prior to the last day of the taxable year following the taxable year in which such expenses were incurred by the Executive, (b) any right to reimbursement or in-kind benefits shall not be subject to liquidation or exchange for another benefit, and (c) no such reimbursement, expenses eligible for reimbursement, or in-kind benefits provided in any taxable year shall in any way affect the expenses eligible for reimbursement, or in-kind benefits to be provided, in any other taxable year.

**6.5 Installment Payments** . For purposes of Code Section 409A, Executive's right to receive any installment payment pursuant to this Agreement shall be treated as a right to receive a series of separate and distinct payments.

**6.6 Timing of Payments** . Whenever a payment under this Agreement specifies a payment period with reference to a number of days (e.g., "payment shall be made within thirty (30) days following the date of termination"), the actual date of payment within the specified period shall be within the sole discretion of the Employer.

## 7. Proprietary Information

**7.1 Obligation to Maintain Confidentiality** . Executive acknowledges that the continued success of the Employer and Parent and all of their respective Subsidiaries and Affiliates (collectively, the “ **Parent Group** ”) depends upon the use and protection of Proprietary Information. Executive further acknowledges that the Proprietary Information obtained by Executive during the course of Executive’s employment (including, for all purposes herein, prior to the Closing) with the Employer or any of its Subsidiaries or Affiliates concerning the Business and the business and affairs of the Employer any member of the Parent Group (including, without limitation, Proprietary Information obtained by him while employed by the Employer and/or any of its Subsidiaries prior to the date of this Agreement and the acquisition of the Employer by Parent) is the property of Employer or such member of the Parent Group, including information concerning acquisition opportunities in or reasonably related to the Employer’s business or industry. Executive agrees to hold in strict confidence and in trust for the sole benefit of the Employer all Trade Secrets and Proprietary Information to which he may have or has had access during the course of his employment with Employer and will not disclose any Proprietary Information, directly or indirectly, to anyone outside of the Parent Group, nor use, copy, publish, summarize, or remove from the Employer premises such Proprietary Information (or remove from Employer premises any other property of the Employer) except during his employment to the extent necessary to carry out Executive’s responsibilities under this Agreement. Executive further understands that the publication of any Proprietary Information through literature or speeches must be approved in advance in writing by the Board. Executive shall take reasonable and appropriate steps to safeguard Proprietary Information and to protect it against disclosure, misuse, espionage, loss and theft. Executive shall deliver to Employer upon the termination of the Employment Period, or at any other time Employer may request, all memoranda, notes, plans, records, reports, computer tapes, printouts and software and other documents and data (and copies thereof) embodying or relating to the Proprietary Information, Work Product (as defined below) or the business of the Employer or any member of the Parent Group (including, without limitation, all acquisition prospects, lists and contact information) which Executive may then possess or have under his control.

**7.2 Ownership of Property** . Executive acknowledges that all discoveries, concepts, ideas, inventions, innovations, improvements, developments, methods, processes, programs, designs, analyses, drawings, reports, patent applications, copyrightable work and mask work (whether or not including any confidential information) and all registrations or applications related thereto, all other Proprietary Information and all similar or related information (whether or not patentable) that relate to the Business and the Employer’s or any of member of the Parent Group’s actual or anticipated business, research and development, or existing or future products or services and that are conceived, developed, contributed to, made, or reduced to practice by

Executive (either solely or jointly with others) while employed by the Employer or any of member of the Parent Group (“ **Work Product** ”), belong to the Employer or such member of the Parent Group, and Executive hereby assigns, and agrees to assign, all of the above Work Product to the Employer or to such member of the Parent Group. Any copyrightable work prepared in whole or in part by Executive in the course of his work for any of the foregoing entities shall be deemed a “work made for hire” under the copyright laws (including the United States Copyright Act (17 U.S.C., Section 101)), and the Employer or such member of the Parent Group shall own all rights therein. To the extent that any such copyrightable work is not a “work made for hire,” Executive hereby assigns and agrees to assign to the Employer or such member of the Parent Group all right, title, and interest, including without limitation, copyright in and to such copyrightable work. Executive shall promptly disclose such Work Product to the Employer and perform all actions reasonably requested by the Board (whether during or after the Employment Period), at the Employer’s sole expense, to establish and confirm the Employer’s or such member of Parent Group’s ownership (including, without limitation, assignments, consents, powers of attorney, and other instruments) in Work Product and copyrightable work identified by the Board. Executive is hereby advised that this Section 7.2 regarding the Parent Group’s ownership of Work Product does not apply to any invention that Executive developed entirely on his own time without using any equipment, supplies, facilities, or Trade Secret of the Parent Group except for those inventions that either (a) relate at the time of conception or reduction to practice of the invention to the business, or actual or demonstrably anticipated research or development of any member of the Parent Group, or (b) result from any work performed by Executive for any member of the Parent Group.

**7.3 Third Party Information** . Executive understands that the Employer and each member of the Parent Group will receive from third parties confidential or proprietary information (“ **Third Party Information** ”) that may be subject to a duty on the Employer’s and each member of the Parent Group’s part to maintain the confidentiality of such information and to use it only for certain limited purposes. During the Employment Period and thereafter, and without in any way limiting the provisions of Section 7.1 above, Executive will hold Third Party Information in the strictest confidence and will not disclose to anyone (other than personnel and consultants of the Employer or each member of the Parent Group who need to know such information in connection with their work for the Employer or such member of the Parent Group) or use, except in connection with Executive’s work for the Employer or any member of the Parent Group, Third Party Information unless expressly authorized by the Board in writing.

**7.4 Use of Information of Prior Employers** . During the Employment Period, Executive will not improperly use or disclose any confidential information or trade secrets, if any, of any former employers or any other Person to whom Executive has an obligation of confidentiality, and will not bring onto the premises of the Employer or any member of the Parent Group any confidential information or trade secrets of any former employer or any other

Person to whom Executive has an obligation of confidentiality unless consented to in writing by the former employer or Person. This Section 7.4 shall not apply to confidential information or trade secrets of the Company.

**7.5 Definition of Proprietary Information** . For purposes of this Agreement, the term “ *Proprietary Information* ” shall mean all information of a confidential or proprietary nature (whether or not specifically labeled or identified as “confidential” or “proprietary”), in any form or medium, that relates to or results from the business, historical or projected financial results, products, services or research or development of the Employer (including the Company as the Employer’s predecessor), or any member of the Parent Group or their respective suppliers, distributors, customers, potential customers, independent contractors, third-party payors, providers or other business relations. Proprietary Information shall include, but is not limited to, the following: (a) internal business information (including historical and projected financial information and budgets and information relating to strategic and staffing plans and practices, training, marketing, promotional and sales plans and practices, cost, rate and pricing structures, risk management practices, health care programs designed for clients and patients, negotiation strategies and practices and accounting and business methods); (b) individual requirements of, specific contractual arrangements with, and information about, Employer’s or any member of the Parent Group’s employees (including personnel files and other information), suppliers, distributors, customers, potential customers, independent contractors, third-party payors, providers or other business relations and their confidential information, including, without limitation, patient records, medical histories and other information concerning patients (including, without limitation, all “Protected Health Information” within the meaning of the Health Insurance Portability and Accountability Act); (c) Trade Secrets, technology, know-how, compilations of data and analyses, techniques, systems, formulae, research, records, reports, manuals, flow charts, documentation, models, data and data bases relating thereto; (d) computer software, including operating systems, applications and program listings; (e) inventions, innovations, ideas, devices, improvements, developments, methods, processes, designs, analyses, drawings, photographs, reports and all similar or related information (whether or not patentable and whether or not reduced to practice); (f) copyrightable works; (g) intellectual property of every kind and description; and (h) all similar and related information in whatever form.

**7.6 Definition of Trade Secret** . For purposes of this Agreement, the term “ *Trade Secrets* ” means any and all information, including a formula, pattern, compilation, program, device, method, technique or process that derives independent economic value, actual or potential, from not being generally known to the public or to other persons who can obtain economic value from its disclosure or use, and is the subject of efforts that are reasonable under the circumstances to maintain its secrecy. By way of illustration but not limitation, “ *Trade Secrets* ” includes: (a) Work Product; (b) information regarding plans for research, development, current and new products, marketing and selling, business plans, budgets and unpublished

financial statements, licenses, prices and costs, production, carriers and customers and potential customers; (c) information regarding the skills and compensation of other employees of Employer and the other members of the Parent Group; and (d) Third-Party Information. For the avoidance of doubt, “ *Trade Secrets* ” do not include any information which: (w) is already in the public domain or becomes available to the public through no breach of this Agreement by Executive, (x) is lawfully obtainable from non-confidential sources other than the Parent, its Subsidiaries, their Affiliates or their respective personnel, suppliers, distributors, customers, independent contractors or other business relations, (y) is legally available to Executive from non-confidential sources other than the Parent, its Subsidiaries, their Affiliates or their respective personnel, suppliers, distributors, customers, independent contractors or other business relations, or (z) is developed by Executive entirely on his own time without using Parent’s, its Subsidiaries’ or their Affiliates’ equipment, supplies, facilities, or trade secret information and does not relate at the time of conception to Parent’s, its Subsidiaries’ or their Affiliates’ business, or actual or demonstrably anticipated research or development of Parent, its Subsidiaries or their Affiliates, or result from any work performed by Executive for Parent, its Subsidiaries or their Affiliates.

## **8. Non-Compete; Nonsolicitation; No-Hire**

Executive acknowledges that (a) Executive has become familiar with and (b) in the course of Executive’s employment with the Employer, Executive will become familiar with the Trade Secrets of the Business and the Parent Group and with other Proprietary Information concerning the Business and the Parent Group and that Executive’s services will be of special, unique and extraordinary value to the Employer and the Parent Group and that the Employer would be irreparably damaged if he were to breach his obligations under this Agreement. Therefore, Executive agrees that, without limiting any other obligation pursuant to this Agreement:

**8.1 Non-Compete** . Executive agrees that, during the Employment Period and for a period of time consisting of the longer of either (x) eighteen (18) months beginning on the date of termination of Executive’s employment, or (y) the time period remaining between the date of termination of Executive’s employment and ending on the third (3rd) anniversary of the Effective Date (the “ *Non-competite Period* ”), Executive shall not directly or indirectly own any interest in, manage, control, participate in, consult with, render services for, be employed in an executive, managerial or administrative capacity by, or in any manner engage with, any person, business or entity engaged in the business of or competing with the Employer or its Subsidiaries or any member of the Parent Group as such businesses exist or are in process during the Employment Period or on the date of the termination or expiration of the Employment Period, within any state in the United States or any other geographical area in which the Employer or its Subsidiaries or any member of the Parent Group engage or plan to engage in such businesses. Nothing herein shall prohibit Executive from being a passive owner of not more than 2% of the outstanding

stock of any class of a corporation which is publicly traded, so long as Executive has no active participation in the business of such corporation.

**8.2 Nonsolicitation; No-Hire .** During the Non-compete Period, Executive shall not directly or indirectly through another person, business or entity (a) induce or attempt to induce any employee of the Employer, the Parent Group or any of their respective Subsidiaries to leave the employ of the Employer or the Parent Group or such Subsidiary, or in any way interfere with the relationship between the Employer, the Parent Group or any of their respective Subsidiaries and any employee thereof, (b) hire any employee of the Employer, the Parent Group or any of their respective Subsidiaries or hire any former employee of the Employer, the Parent Group or any of their respective Subsidiaries within one year after such person ceased to be an employee of the Employer, the Parent Group or any of their respective Subsidiaries, (c) induce or attempt to induce any customer, supplier, licensee, licensor, franchisee, Financial Advisor (as defined in the Purchase Agreement) or other business relation of the Employer, the Parent Group or any of their respective Subsidiaries to cease doing business with the Employer, Parent Group or such Subsidiary or in any way interfere with the relationship between any such customer, supplier, licensee, licensor, franchisee, Financial Advisor or business relation and the Employer, the Parent Group or any such Subsidiary (including, without limitation, making any negative or disparaging statements or communications regarding the Employer, the Parent Group or their respective Subsidiaries or any of their officers, directors or employees) or (d) directly or indirectly acquire or attempt to acquire an interest in any business relating to the business of the Employer, the Parent Group or any of their respective Subsidiaries and with which the Employer, the Parent Group or any of their respective Subsidiaries has entertained discussions or has requested and received information relating to the acquisition of such business by the Employer, the Parent Group or any of their respective Subsidiaries at any time within the two-year period immediately preceding the end of the Employment Period.

**8.3 Non-Disparagement .**

(a) Executive agrees that Executive shall not disparage or encourage others to disparage the Employer or any member of the Parent Group or any of their respective past and present employees, directors, members, officers, managers, equityholders, products or services. For purposes of this Section 8.3(a), the term “*disparage*” includes, without limitation, comments or statements to the press, to the Employer’s employees or to any individual or entity with whom the Employer has a business relationship (including, without limitation, any vendor, supplier, customer or distributor of the Employer) that would adversely affect in any manner: (a) the conduct of any business of the Employer or any member of the Parent Group (including, without limitation, any business plans or prospects) or (b) the business reputation of the Employer or any member of the Parent Group.

(b) The Employer agrees that the Employer and Parent shall not disparage or encourage others to disparage Executive. For purposes of this Section 8.3(b), the term “*disparage*” includes, without limitation, comments or statements to the press, to the Employer’s employees or to any individual or entity with whom Executive has a business relationship (including, without limitation, any vendor, supplier, customer or distributor of the Employer) that would adversely affect in any manner the business reputation of Executive.

**8.4 Cooperation** . Upon the receipt of reasonable notice from the Employer (including notice on behalf of the Employer by its outside counsel), Executive agrees that while employed by the Employer and, subject to Executive’s other business commitments, thereafter, Executive will respond and provide information with regard to matters in which Executive has knowledge as a result of Executive’s employment with the Employer and will provide reasonable assistance to the Employer and its representatives in defense of any claims that may be made against the Employer, and will assist the Employer in the prosecution of any claims that may be made by the Employer, to the extent that such claims may relate to the period of Executive’s employment with the Employer or any predecessor). Executive agrees to promptly inform the Employer if Executive becomes aware of any lawsuits involving such claims that may be filed or threatened against the Employer. Executive also agrees to promptly inform the Employer (to the extent Executive is legally permitted to do so) if Executive is asked to assist in any investigation of the Employer (or their actions), regardless of whether a lawsuit or other proceeding has then been filed against the Employer with respect to such investigation, and shall not do so unless legally required. If Executive is required to provide any services pursuant to this Section 8.4 following the Employment Period, upon presentation of appropriate documentation, the Employer shall reimburse Executive for actual, reasonable out-of-pocket expenses incurred in connection with the performance of such services, as well as Executive’s time at a rate of five hundred (500) dollars per hour.

**8.5 Enforcement** . If, at the time of enforcement of Section 7 or this Section 8, a court holds that the restrictions stated herein are unreasonable under circumstances then existing, the parties hereto agree that the maximum duration or scope reasonable under such circumstances shall be substituted for the stated period or scope and that the court may revise such restrictions to cover the maximum duration or scope permitted by law and reasonable under such circumstances. Because Executive’s services are unique and because Executive has access to Trade Secrets and Proprietary Information, the parties hereto agree that the Employer and each member of the Parent Group would be irreparably harmed by, and money damages would be an inadequate remedy for, any breach of this Agreement. Therefore, in the event a breach or threatened breach of this Agreement, the Employer, any member of the Parent Group and/or their respective successors or assigns shall be, in addition to other rights and remedies existing in their favor, entitled to specific performance and/or injunctive or other relief in order to enforce, or prevent any violations of, the provisions hereof. Each of the Executive and the Employer hereby

further waives (a) any defense in any such action for specific performance that a remedy at law would be adequate, (b) any requirement under any law to post security as a prerequisite to obtaining such equitable relief and (c) any defense in any such motion for specific performance that such remedy is unavailable as a result of the Employer's breach or alleged breach of this Agreement.

**8.6 Additional Acknowledgments** . Executive acknowledges that the provisions of Section 7 and this Section 8 are in consideration of employment with the Employer and additional good and valuable consideration as set forth in this Agreement. In addition, Executive agrees and acknowledges that the restrictions contained in Section 7 and this Section 8 do not preclude Executive from earning a livelihood, nor do they unreasonably impose limitations on Executive's ability to earn a living. In addition, Executive acknowledges (a) that the business of the Employer will be conducted throughout the United States and its territories, (b) notwithstanding the state of organization or principal office of the Employer or facilities, or any of their respective executives or employees (including Executive), it is expected that the Employer will have business activities and have valuable business relationships within its industry throughout the United States and its territories, and (c) as part of Executive's responsibilities, Executive will be traveling throughout the United States and other jurisdictions where the Employer conduct business during the Employment Period in furtherance of the Employer's business and its relationships. Executive agrees and acknowledges that the potential harm to the Employer of the non-enforcement of any provision of Section 7 and this Section 8 outweighs any potential harm to Executive of its enforcement by injunction or otherwise. Executive acknowledges that he has carefully read this Agreement and consulted with legal counsel of his choosing regarding its contents, has given careful consideration to the restraints imposed upon Executive by this Agreement and is in full accord as to their necessity for the reasonable and proper protection of confidential and proprietary information of the Employer now existing or to be developed in the future. Executive expressly acknowledges and agrees that each and every restraint imposed by this Agreement is reasonable with respect to subject matter and time period.

## **9. Other Provisions**

**9.1 Corporate Opportunity** . During the Employment Period, Executive shall submit to the Board all business, commercial and investment opportunities or offers presented to Executive or of which Executive becomes aware which relate to the Business or any other business of the Parent Group at any time during the Employment Period ("**Corporate Opportunities**"). Unless approved by the Board, Executive shall not accept or pursue, directly or indirectly, any Corporate Opportunities on Executive's own behalf.



**9.2 Notices** . Any notice or other communication required or which may be given hereunder shall be in writing and shall be delivered personally, sent by facsimile transmission or sent by certified, registered or express mail, postage prepaid or overnight mail, shall be copied via email to the address(es) listed below, and shall be deemed given when so delivered personally or sent by facsimile transmission or, if mailed, four (4) days after the date of mailing or one (1) day after overnight mail, as follows:

If to the Employer, to:

H. D. Vest, Inc.

c/o Project Baseball Sub, Inc.

10900 NE 8<sup>th</sup> Street, Suite 800

Bellevue, WA 98004

Attn: Chief Legal and Administrative Officer

Email: Mark.Finkelstein@blucora.com

Fax: (425) 201-6167

With a copy to:

Project Baseball Sub, Inc.

c/o Blucora, Inc.

10900 NE 8<sup>th</sup> Street, Suite 800

Bellevue, WA 98004

Attn: Chief Legal and Administrative Officer

Email: Mark.Finkelstein@blucora.com

Fax: (425) 201-6167

If to Parent: Blucora, Inc.

10900 NE 8<sup>th</sup> Street, Suite 800

Bellevue, WA 98004

Attn: Chief Legal and Administrative Officer

Email: Mark.Finkelstein@blucora.com

Fax: (425) 201-6167

If to Executive, to Executive's home address reflected in the Employer's records,  
with a copy to:

Kevin Robinowitz  
Lackey Hershman, L.L.P.  
3102 Oak Lawn Ave., Suite 777  
Dallas, Texas 75219  
E-mail: kpr@lhlaw.net  
Fax: (214) 560-2203

**9.3 Entire Agreement .** This Agreement contains the entire agreement between the Parties with respect to the subject matter hereof and supersedes all prior agreements, written or oral, with respect thereto, including but not limited to, any term sheets, offer letters or similar documents contemplating the execution of an employment agreement setting forth the terms and conditions of Executive's future employment with the Employer.

**9.4 Representations and Warranties by Executive .** Executive represents and warrants that (a) the execution, delivery and performance of this Agreement by Executive do not and shall not conflict with, breach, violate or cause a default under any contract, agreement, instrument, order, judgment or decree to which Executive is a party or by which he is bound, (b) Executive is not a party to or bound by any employment agreement, non-compete agreement or confidentiality agreement with any other person or entity and (c) upon the execution and delivery of this Agreement by the Employer, this Agreement shall be the valid and binding obligation of Executive, enforceable in accordance with its terms. Executive hereby acknowledges and represents that he has consulted with independent legal counsel regarding his rights and obligations under this Agreement and that he fully understands the terms and conditions contained herein.

**9.5 Waiver and Amendments .** This Agreement may be amended, modified, superseded, canceled, renewed or extended, and the terms and conditions hereof may be waived, only by a written instrument signed by the Parties or, in the case of a waiver, by the Party waiving compliance. No delay on the part of any Party in exercising any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any waiver on the part of any right, power or privilege hereunder, nor any single or partial exercise of any right, power or privilege hereunder, preclude any other or further exercise thereof or the exercise of any other right, power or privilege hereunder.

**9.6 No Strict Construction .** The language used in this Agreement shall be deemed to be the language chosen by the parties hereto to express their mutual intent, and no rule of strict construction shall be applied against any party. Whenever in this Agreement or any other agreement contemplated herein the Board is permitted or required to take any action or to make a

decision or determination, the Board shall take such action or make such decision or determination in its sole discretion, unless another standard is expressly set forth herein or therein. Whenever in this Agreement or any other agreement contemplated herein the Board is permitted or required to take any action or to make a decision or determination in its “sole discretion” or “discretion,” with “complete discretion” or under a grant of similar authority or latitude, each member of the Board shall be entitled to consider such interests and factors as such member desires (including the interests of such member’s Affiliates or employers).

**9.7 Governing Law; Jurisdiction** . This Agreement shall be governed and construed in accordance with the laws of the State of Texas applicable to agreements made and/or to be performed entirely within that State, without regard to conflicts of laws principles. Each of the parties agrees that any dispute between the parties shall be resolved only in the courts of the State of Texas located in Dallas County, Texas or the United States District Court for the Northern District of Texas, Dallas Division and the appellate courts having jurisdiction of appeals in such courts. In that context, and without limiting the generality of the foregoing, each of the parties hereto irrevocably and unconditionally (a) submits for himself, herself or itself in any proceeding relating to this Agreement or Executive’s employment by the Employer, or for the recognition and enforcement of any judgment in respect thereof (a “*Proceeding*”), to the exclusive jurisdiction of the courts of the State of Texas, the court of the United States of America for the Northern District of Texas, and appellate courts having jurisdiction of appeals from any of the foregoing, and agrees that all claims in respect of any such Proceeding shall be heard and determined in such Texas State court or, to the extent permitted by law, in such federal court; (b) consents that any such Proceeding may and shall be brought in such courts and waives any objection that he or it may now or thereafter have to the venue or jurisdiction of any such Proceeding in any such court or that such Proceeding was brought in an inconvenient court and agrees not to plead or claim the same or seek removal to another court; (c) agrees that service of process in any such Proceeding may be effected by mailing a copy of such process by registered or certified mail (or any substantially similar form of mail), postage prepaid, to such party at his, her or its address as provided in Section 9.2; and (d) agrees that nothing in this Agreement shall affect the right to effect service of process in any other manner permitted by the laws of the State of Texas.

**9.8 MUTUAL WAIVER OF JURY TRIAL** . BECAUSE DISPUTES ARISING IN CONNECTION WITH COMPLEX TRANSACTIONS ARE MOST QUICKLY AND ECONOMICALLY RESOLVED BY AN EXPERIENCED AND EXPERT PERSON AND THE PARTIES WISH APPLICABLE STATE AND FEDERAL LAWS TO APPLY (RATHER THAN ARBITRATION RULES), THE PARTIES DESIRE THAT THEIR DISPUTES BE RESOLVED BY A JUDGE APPLYING SUCH APPLICABLE LAWS. THEREFORE, TO ACHIEVE THE BEST COMBINATION OF THE BENEFITS OF THE JUDICIAL SYSTEM AND OF ARBITRATION, EACH PARTY TO THIS AGREEMENT HEREBY WAIVES ALL RIGHTS

TO TRIAL BY JURY IN ANY ACTION, SUIT, OR PROCEEDING BROUGHT TO RESOLVE ANY DISPUTE BETWEEN OR AMONG ANY OF THE PARTIES HERETO, WHETHER ARISING IN CONTRACT, TORT, OR OTHERWISE, ARISING OUT OF, CONNECTED WITH, RELATED OR INCIDENTAL TO THIS AGREEMENT, THE TRANSACTIONS CONTEMPLATED HEREBY AND/OR THE RELATIONSHIP ESTABLISHED AMONG THE PARTIES HEREUNDER.

**9.9 Assignment** . This Agreement and all of Executive's rights and duties hereunder, shall not be assignable or delegable by Executive. Any purported assignment or delegation by Executive in violation of the foregoing shall be null and void ab initio and of no force and effect. This Agreement may be assigned by the Employer to a person or entity which is an Affiliate or a successor in interest to substantially all of the business operations of the Employer. Upon such assignment, the rights of the Employer hereunder shall become the rights of such Affiliate or successor person or entity, but Employer shall remain jointly and severally liable, with the Affiliate or successor person or entity, for all obligations arising under this Agreement.

**9.10 Successors; Binding Agreement** . This Agreement shall inure to the benefit of and be binding upon personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees.

**9.11 Counterparts** . This Agreement may be executed in counterparts, each of which shall be deemed an original but all of which shall constitute one and the same instrument.

**9.12 Headings** . The headings in this Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning of terms contained herein.

**9.13 Severability** . If any term, provision, covenant or restriction of this Agreement, or any part thereof, is held by a court of competent jurisdiction of any foreign, federal, state, county or local government or any other governmental, regulatory or administrative agency or authority to be invalid, void, unenforceable or against public policy for any reason, the remainder of the terms, provisions, covenants and restrictions of this Agreement shall remain in full force and effect and shall in no way be affected or impaired or invalidated. Further, in lieu of such invalid, void, unenforceable or against public policy provision, there will be automatically included, as part of this Agreement and to the extent allowed by controlling law, a provision as similar in terms to such invalid, void, unenforceable or against public policy provision as may be possible and legal, valid and enforceable. In the event any controlling law is subsequently amended or interpreted in such a way to make any provision of this Agreement that was formerly invalid a valid provision, such provision shall be considered to be valid from the date provided in such interpretation or amendment or, in the event the interpretation or amendment does not otherwise provide, from the effective date of such interpretation or amendment. Executive acknowledges

that the restrictive covenants contained in Sections 7 and 8 or elsewhere are a condition of this Agreement and are reasonable and valid in temporal scope and in all other respects.

**9.14 Definitions** . For purposes of this Agreement, terms used herein but not otherwise defined shall have the meanings set forth in the Purchase Agreement. The following terms shall have the meanings set forth below:

“**Affiliate**” means, with respect to the Parent and its Subsidiaries, any other Person controlling, controlled by or under common control with the Parent or any of its Subsidiaries and, in the case of a Person which is a partnership, any partner of the Person.

“**Business**” means the business of the Employer and any member of the Parent Group while this Agreement is in effect, including, without limitation, the business relating to providing comprehensive brokerage and financial advisory services through tax professionals and accountants that are engaged part-time as independent contractors and who are: (a) investment advisers or are supervised persons of, or persons associated with, an investment adviser (in each case as defined in the United States Investment Advisers Act of 1940, as amended); and/or (b) are broker-dealers registered under the United States Securities Exchange Act of 1934, as amended (the “**Exchange Act**”) (or associated persons thereof, as defined in the Exchange Act).

“**Cause**” means, as determined by the Board in its reasonable discretion: (a) Executive's conviction of, or plea of guilty or *nolo contendere* to, a misdemeanor involving dishonesty, wrongful taking of property, immoral conduct, bribery or extortion or any felony; (b) willful material misconduct by Executive in connection with the business of the Company; (c) Executive's continued and willful failure to perform substantially his responsibilities to the Company under this Agreement, after written demand for substantial performance has been given by the Board that specifically identifies how Executive has not substantially performed his responsibilities; (d) Executive's improper disclosure of confidential information or other material breach of this Agreement; (e) Executive's material fraud or dishonesty against the Company; (f) Executive's willful and material breach of the Company's written code of conduct and business ethics or other material written policy, procedure or guideline in effect from time to time (provided that Executive was given access to a copy of such policy, procedure or guideline prior to the alleged breach) relating to personal conduct; or (g) Executive's willful attempt to obstruct or willful failure to cooperate with any investigation authorized by the Board or any governmental or self-regulatory entity. Any determination of Cause by the Company shall be made by a resolution approved by a majority of the members of the Board, provided that, with respect to Section (c), the Board must give the Executive notice and sixty (60) days to cure the substantial nonperformance.

“**Good Reason**” means (a) relocation of Executive's primary work place more than fifty (50) miles from his present place of work without Executive's written consent, (b) a reduction in

the amount of the Base Salary in effect from time to time, or (c) significant and material diminution in Executive's title or responsibilities hereunder without Executive's written consent; provided, however, that no resignation under this Agreement shall constitute resignation for Good Reason unless (x) Executive gives written notice of the event constituting Good Reason to the Board and the Board of Parent within ninety (90) days of the occurrence of such event, (y) the Employer (and its successors or assigns, if any) fail(s) to cure such event, if curable, within thirty (30) days of the receipt of such notice and (z) Executive delivers written notice of resignation within thirty (30) days of the expiration of the cure period described in clause (y).

“ **Parent** ” means Blucora, Inc., a Delaware corporation and parent of the Employer.

“ **Person** ” means an individual, a partnership, a corporation, a limited liability company, an association, a joint stock company, a trust, a joint venture, an unincorporated organization and a governmental entity or any department, agency or political subdivision thereof.

“ **Subsidiary** ” or “ **Subsidiaries** ” means any Person of which (a) if a corporation, a majority of the total voting power of shares of stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers, or trustees thereof is at the time owned or controlled, directly or indirectly, by the Parent or one or more of its Subsidiaries or a combination thereof or (b) if a limited liability company, partnership, association or other business entity (other than a corporation), a majority of partnership or other similar ownership interest thereof is at the time owned or controlled, directly or indirectly, by the Parent or one or more of its Subsidiaries or a combination thereof and for this purpose a Person or Persons owns a majority ownership interest in such a business entity (other than a corporation) if such Person or Persons shall be allocated a majority of such business entity's gains or losses or shall be or control any managing director or general partner of such business entity (other than a corporation). For the purposes hereof, the term Subsidiary shall include all Subsidiaries of such Subsidiary.

**9.15 Insurance** . The Employer, at its discretion, may apply for and procure in its own name and for its own benefit life and/or disability insurance on Executive in any amount or amounts considered available. Executive agrees to cooperate in any medical or other examination, supply any information, and to execute and deliver any applications or other instruments in writing as may be reasonably necessary to obtain and constitute such insurance. Employer shall not access any information, whether medical or otherwise, that is obtained from Executive or relates to Executive, and that is gathered, created or produced in connection with this Section 9.15. Executive hereby represents that he has no reason to believe that his life is not insurable at rates now prevailing for healthy men of his age.

**9.16 Tax Withholding** . The members of the Parent Group shall be entitled to deduct or withhold from any amounts owing from the Parent Group to Executive any federal, state, local or foreign withholding taxes, excise tax, or employment taxes (“*Taxes*”) imposed with respect to Executive’s compensation or other payments from a member of the Parent Group. In the event a member of the Parent Group does not make such deductions or withholdings, Executive shall indemnify the Parent Group for any amounts paid with respect to any such Taxes, together (if such failure to withhold was at the written direction of Executive) with any interest, penalties and related expenses thereto.

**9.17 Remedies** . Each of the Parties to this Agreement (and the Parent as a third party beneficiary) will be entitled to enforce its rights under this Agreement specifically, to recover actual damages and reasonable costs (including attorney’s fees) caused by any breach of any provision of this Agreement and to exercise all other rights existing in its favor. The Parties hereto agree and acknowledge that money damages may not be an adequate remedy for any breach of the provisions of this Agreement and that any party may in its sole discretion apply to any court or other tribunal (without posting any bond or deposit) for specific performance and/or other injunctive relief in order to enforce or prevent any violations of the provisions of this Agreement.

*[ Remainder of this page intentionally left blank; Signature page to follow ]*

IN WITNESS WHEREOF, the Parties hereto, intending to be legally bound hereby, have executed this Second Amended and Restated Employment Agreement as of the above written date.

**PROJECT BASEBALL, SUB, INC.**

By: s/ John S. Clendening  
Name: John S. Clendening  
Title: President and Chief Executive Officer

/s/ Roger Ochs  
Roger Ochs

*Signature Page to Amended and Restated Employment Agreement*

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## EXHIBIT A

### GENERAL RELEASE

I, Roger Ochs, in consideration of and subject to the performance by Project Baseball Sub, Inc., a Delaware corporation (together with its subsidiaries, the “**Company**”), of its obligations under the Employment Agreement, dated as of \_\_\_\_\_, 2015 (the “**Agreement**”), do hereby execute this general release ("General Release"), and hereby release and forever discharge, as of the date hereof, Parent, the Company and their respective affiliates and subsidiaries and all present, former and future directors, officers, agents, representatives, employees, successors and assigns of Parent, the Company and their respective affiliates and subsidiaries and direct or indirect owners (collectively, the “**Released Parties**”) to the limited extent provided below. Terms used herein but not otherwise defined shall have the meanings given to them in the Agreement.

(1) I understand that any payments or benefits paid or granted to me under Section 5.2(f) of the Agreement represent, in part, consideration for signing this General Release and are not salary, wages or benefits to which I was already entitled. I understand and agree that I will not receive the payments and benefits specified in Section 5.2(f) of the Agreement unless I execute this General Release and do not revoke this General Release within the time period permitted hereafter or breach this General Release. Such payments and benefits will not be considered compensation for purposes of any employee benefit plan, program, policy or arrangement maintained or hereafter established by the Company or its affiliates. I also acknowledge and represent that I have received all payments and benefits that I am entitled to receive (as of the date hereof) by virtue of any employment by the Company.

(2) Except as provided in paragraph 4 below, I knowingly and voluntarily (for myself, my heirs, executors, administrators and assigns) release and forever discharge the Company and the other Released Parties from any and all other claims, suits, controversies, actions, causes of action, cross-claims, counter-claims, demands, debts, compensatory damages, liquidated damages, punitive or exemplary damages, other damages, claims for costs and attorneys’ fees, or liabilities of any nature whatsoever in law and in equity, both past and present (through the date this General Release becomes effective and enforceable) and whether known or unknown, suspected, or claimed against the Company or any of the Released Parties which I, my spouse, or any of my heirs, executors, administrators or assigns, may have, which arise out of or are connected with my employment with, or my separation or termination from, the Company (including, but not limited to, any allegation, claim or violation, arising under: Title VII of the Civil Rights Act of 1964, as amended; the Civil Rights Act of 1991; the Age Discrimination in Employment Act of 1967, as amended (including the Older Workers Benefit Protection Act); the Equal Pay Act of 1963, as amended; the Americans with Disabilities Act of 1990; the Family and

Medical Leave Act of 1993; the Worker Adjustment Retraining and Notification Act; the Employee Retirement Income Security Act of 1974; any applicable Executive Order Programs; the Fair Labor Standards Act; or their state or local counterparts; or under any other federal, state or local civil or human rights law, or under any other local, state, or federal law, regulation or ordinance; or under any public policy, contract or tort, or under common law; or arising under any policies, practices or procedures of the Company; or any claim for wrongful discharge, breach of contract, infliction of emotional distress, defamation; or any claim for costs, fees, or other expenses, including attorneys' fees incurred in these matters) (all of the foregoing collectively referred to herein as the "*Claims*").

(3) I represent that I have made no assignment or transfer of any right, claim, demand, cause of action, or other matter released by paragraph 2 above.

(4) I agree that this General Release does not waive or release any rights or claims that I may have under the Age Discrimination in Employment Act of 1967 which arise after the date I execute this General Release. I acknowledge and agree that my separation from employment with the Company in compliance with the terms of the Agreement shall not serve as the basis for any claim or action (including, without limitation, any claim under the Age Discrimination in Employment Act of 1967). This General Release shall not waive, affect or modify my rights as a shareholder or as a stock option holder. Nor will it waive, affect or modify my rights, if any, under any promissory notes, rollover agreements, or deferred compensation plans.

(5) I agree that I hereby waive all rights to sue or obtain equitable, remedial or punitive relief from any or all Released Parties for any of the claims released herein. Notwithstanding the above, I further acknowledge that I am not waiving and am not being required to waive any right that cannot be waived under law, including the right to file an administrative charge or participate in an administrative investigation or proceeding; provided, however, that I disclaim and waives any right to share or participate in any monetary award resulting from the prosecution of such charge or investigation or proceeding.

(6) Notwithstanding anything in this Release to the contrary, the parties agree I am not waiving any of my vested rights as specifically provided for under the Company's 401(k) plan.

(7) In signing this General Release, I acknowledge and intend that it shall be effective as a bar to each and every one of the Claims hereinabove mentioned or implied that has been released herein. I expressly consent that this General Release shall be given full force and effect according to each and all of its express terms and provisions, including those relating to unknown and unsuspected Claims (notwithstanding any state statute that expressly limits the effectiveness of a general release of unknown, unsuspected and unanticipated Claims), if any, as

well as those relating to any other Claims hereinabove mentioned or implied. I acknowledge and agree that this waiver is an essential and material term of this General Release and that without such waiver the Company would not have agreed to the terms of the Agreement. I further agree that in the event I should bring a Claim that has been released seeking damages against the Company, or in the event I should seek to recover against the Company in any Claim that has been released and was brought by a governmental agency on my behalf, this General Release shall serve as a complete defense to such Claims to the maximum extent permitted by law. I further agree that I am not aware of any pending claim that is being released herein and that is of the type described in paragraph 2 as of the execution of this General Release.

(8) I agree that neither this General Release, nor the furnishing of the consideration for this General Release, shall be deemed or construed at any time to be an admission by the Company, any Released Party or myself of any improper or unlawful conduct.

(9) I agree that if I violate this General Release by suing the Company or the other Released Parties to recover for any Claim released herein, I will pay all costs and expenses of defending against the suit incurred by the Released Parties, including reasonable attorneys' fees and return all payments received by me pursuant to Section 5.2(f) of the Agreement. I agree that this General Release and the Agreement are confidential and agree not to disclose any information regarding the terms of this General Release or the Agreement, except to my immediate family, a Court of competent jurisdiction, and any tax, legal or other counsel I have consulted regarding the meaning or effect hereof or as required by law, and I will instruct each of the foregoing not to disclose the same to anyone. The Company agrees to disclose any such information only to any tax, legal or other counsel of the Company as required by law.

(10) Any non-disclosure provision in this General Release does not prohibit or restrict me (or my attorney) from responding to any inquiry about this General Release or its underlying facts and circumstances by the Securities and Exchange Commission (SEC), the National Association of Securities Dealers, Inc. (NASD), any other self-regulatory organization or governmental entity.

(11) I agree to reasonably cooperate with the Company in any internal investigation, any administrative, regulatory, or judicial proceeding or any dispute with a third party. I understand and agree that my cooperation may include, but not be limited to, making myself available to the Company upon reasonable notice for interviews and factual investigations; appearing at the Company's request to give testimony without requiring service of a subpoena or other legal process; volunteering to the Company pertinent information; and turning over to the Company all relevant documents which are or may come into my possession all at times and on schedules that are reasonably consistent with my other permitted activities and commitments. I understand that in the event the Company asks for my cooperation in accordance with this provision, the Company will reimburse me for reasonable travel expenses, (including lodging

and meals), upon my submission of receipts, and will pay me for my time at the rate of five hundred (\$500) dollars per hour.

(12) I agree not to disparage the Company, its past and present investors, officers, directors or employees or its affiliates and to keep all confidential and proprietary information about the past or present business affairs of the Company and its affiliates confidential unless a prior written release from the Company is obtained. I further agree that as of the date hereof, I have returned to the Company any and all property, tangible or intangible, relating to its business, which I possessed or had control over at any time (including, but not limited to, company-provided credit cards, building or office access cards, keys, computer equipment, manuals, files, documents, records, software, customer data base and other data) and that I shall not retain any copies, compilations, extracts, excerpts, summaries or other notes of any such manuals, files, documents, records, software, customer data base or other data.

(13) I represent that I am not aware of any claim herein other than the claims that are released by this General Release. I acknowledge that I may hereafter discover claims or facts in addition to or different than those which I now know or believe to exist with respect to the subject matter of the release set forth in paragraph 2 above and which, if known or suspected at the time of entering into this General Release, may have materially affected this General Release and my decision to enter into it. Nevertheless, I hereby waive any right, claim or cause of action that might arise as a result of such different or additional claims or facts and I hereby expressly waive any and all rights and benefits confirmed upon me by the provisions of California Civil Code Section 1542, which provides as follows:

“A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR.”

Being aware of such provisions of law, I agree to expressly waive any rights I may have thereunder with respect to the claims released herein, as well as under any other statute or common law principles of similar effect.

Notwithstanding anything in this General Release to the contrary, this General Release shall not relinquish, diminish, or in any way affect any rights or claims arising out of any breach by the Company or by any Released Party of the Agreement or any other agreement between me and the Company or any other Released Party, in each case, after the date hereof.

Whenever possible, each provision of this General Release shall be interpreted in, such manner as to be effective and valid under applicable law, but if any provision of this General

Release is held to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality or unenforceability shall not affect any other provision or any other jurisdiction, but this General Release shall be reformed, construed and enforced in such jurisdiction as if such invalid, illegal or unenforceable provision had never been contained herein.

BY SIGNING THIS GENERAL RELEASE, I REPRESENT AND AGREE THAT:

- (1) I HAVE READ IT CAREFULLY;
- (2) I UNDERSTAND ALL OF ITS TERMS AND KNOW THAT I AM GIVING UP IMPORTANT RIGHTS, INCLUDING BUT NOT LIMITED TO, RIGHTS UNDER THE AGE DISCRIMINATION IN EMPLOYMENT ACT OF 1967, AS AMENDED, TITLE VII OF THE CIVIL RIGHTS ACT OF 1964, AS AMENDED; THE EQUAL PAY ACT OF 1963, THE AMERICANS WITH DISABILITIES ACT OF 1990; AND THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED;
- (3) I VOLUNTARILY CONSENT TO EVERYTHING IN IT;
- (4) I HAVE BEEN ADVISED TO CONSULT WITH AN ATTORNEY BEFORE EXECUTING IT AND I HAVE DONE SO OR, AFTER CAREFUL READING AND CONSIDERATION I HAVE CHOSEN NOT TO DO SO OF MY OWN VOLITION;
- (5) I HAVE HAD AT LEAST 21 DAYS FROM THE DATE OF MY RECEIPT OF THIS RELEASE SUBSTANTIALLY IN ITS FINAL FORM ON \_\_\_\_\_ TO CONSIDER IT AND THE CHANGES MADE SINCE THE \_\_\_\_\_ VERSION OF THIS RELEASE ARE NOT MATERIAL AND WILL NOT RESTART THE REQUIRED 21-DAY PERIOD;
- (6) I UNDERSTAND THAT I HAVE SEVEN DAYS AFTER THE EXECUTION OF THIS RELEASE TO REVOKE IT AND THAT THIS RELEASE SHALL NOT BECOME EFFECTIVE OR ENFORCEABLE UNTIL THE REVOCATION PERIOD HAS EXPIRED;
- (7) I HAVE SIGNED THIS GENERAL RELEASE KNOWINGLY AND VOLUNTARILY AND WITH THE ADVICE OF ANY COUNSEL RETAINED TO ADVISE ME WITH RESPECT TO IT; AND
- (8) I AGREE THAT THE PROVISIONS OF THIS GENERAL RELEASE MAY NOT BE AMENDED, WAIVED, CHANGED OR MODIFIED EXCEPT BY AN INSTRUMENT IN WRITING SIGNED BY AN AUTHORIZED REPRESENTATIVE OF THE COMPANY AND BY ME.

SIGNED:

Dated: \_

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**AMENDMENT NO. 2 TO AMENDED AND RESTATED EMPLOYMENT AGREEMENT BY AND BETWEEN  
BLUCORA, INC. AND ERIC M. EMANS**

THIS AMENDMENT NO. 2 (this "Amendment") TO THE AMENDED AND RESTATED EMPLOYMENT AGREEMENT DATED JANUARY 6, 2015, AS AMENDED, BY AND BETWEEN ERIC M. EMANS (the "Executive") AND BLUCORA, INC. (the "Company") (the "Agreement"), is made and entered into this 25th day of October 2016. Unless stated otherwise, all capitalized but undefined terms used in this Amendment have the meaning set forth in the Agreement.

WHEREAS, the Agreement provides Executive with certain payments and other benefits in the event of a relocation of Executive's position to a location that is more than 25 miles from Bellevue, Washington;

WHEREAS, the Company anticipates relocating its headquarters, including Executive's position, to the State of Texas during 2017;

WHEREAS, the Company and Executive wish to clarify and amend the Agreement as a result of such relocation; and

WHEREAS, Section 14(b) of the Agreement states that the Agreement may not be modified except expressly in a writing signed by both parties;

NOW THEREFORE, the Agreement is hereby amended as follows:

1. Paragraph 6(e) of the Agreement is amended to read as follows:

(e) Termination of Employment in connection with Relocation. If, during calendar year 2017,

(1) the Company relocates its headquarters to the State of Texas or any other location that is more than 25 miles from Bellevue, Washington (the "Relocation"), and

(2) either (A) Executive's employment with the Company is terminated by the Company without Cause, whether before or after the date of the Relocation (the "Relocation Date"), or (B) Executive does not relocate and terminates his employment with the Company on or after the Relocation Date,

then, subject to Section 6(i), Executive shall receive the following payments and benefits:

(i) a severance payment in an amount equal to one times the Executive's Base Salary in effect as of the Termination Date and his then current Target Bonus amount (in each case less applicable withholding taxes), which amount shall be payable in a single lump sum on the first payroll date that is at least 60 days

following the Termination Date (but, in any event, by no later than March 15, 2018), in accordance with Section 13(b)(ii);

(ii) a lump-sum payment in an amount equal to (A) the monthly COBRA premium in effect under the Company's group health plan as of the Termination Date for the coverage in effect under such plan for the Executive (and the Executive's spouse and dependent children) on such date multiplied by (B) 12, which amount shall be payable in a single lump sum on the first payroll date that is at least 60 days following the Termination Date (but, in any event, by no later than March 15, 2018), in accordance with Section 13(b)(ii); and

(iii) notwithstanding any provision to the contrary in any applicable equity compensation plan or any outstanding equity award agreement, the treatment of the Executive's outstanding equity awards shall be governed solely by the following provisions: (A) all of the Executive's outstanding equity awards granted prior to October 25, 2016 shall fully vest and all restrictions thereon shall lapse and (B) to the extent vested (including as a result of the acceleration provided under this Section 6(e)(iii)), all of the Executive's outstanding stock options shall remain exercisable until the later of one year following the Termination Date or June 30, 2018; provided, however, that all of the Executive's outstanding equity awards granted prior to the effective date of this Agreement (other than outstanding stock options granted prior to the effective date of this Agreement) shall also be governed by Section 16 of the Company's Restated 1996 Flexible Stock Incentive Plan or Section 15 of the 2015 Incentive Plan, as applicable, and the award agreements for those equity awards.

In the event of circumstances to which both Section 6(e) and Section 6(f) of this Agreement can reasonably be construed to apply, then solely Section 6(e) shall apply to such circumstances. In addition, the Executive's receipt of payments and benefits under this Section 6(e) precludes any claim for payments and benefits under Section 6(c) or Section 6(d).

[see next page for signatures]



IN WITNESS WHEREOF, the parties hereto have executed this Amendment No. 2.

Blucora, Inc.

By: /s/ John S. Clendening

Date: October 24, 2016

Name: John S. Clendening

Title: CEO

Executive

/s/ Eric M. Emans

Date: October 25, 2016

Eric M. Emans

**AMENDMENT NO. 2 TO EMPLOYMENT AGREEMENT  
BY AND BETWEEN  
BLUCORA, INC. AND MARK A. FINKELSTEIN**

THIS AMENDMENT NO. 2 (this "Amendment") TO THE EMPLOYMENT AGREEMENT DATED SEPTEMBER 30, 2014, BY AND BETWEEN MARK A. FINKELSTEIN (the "Executive") AND BLUCORA, INC. (the "Company"), as amended (the "Agreement"), is made and entered into this 25th day of October 2016. Unless stated otherwise, all capitalized but undefined terms used in this Amendment have the meaning set forth in the Agreement.

WHEREAS, the Agreement provides Executive with certain payments and other benefits in the event of a relocation of Executive's position to a location that is more than 25 miles from Bellevue, Washington;

WHEREAS, the Company anticipates relocating its headquarters, including Executive's position, to the State of Texas during 2017;

WHEREAS, the Company and Executive wish to clarify and amend the Agreement as a result of such relocation; and

WHEREAS, Section 14(b) of the Agreement states that the Agreement may not be modified except expressly in a writing signed by both parties;

NOW THEREFORE, the Agreement is hereby amended as follows:

1. Paragraph 6(e) of the Agreement is amended to read as follows:

(e) Termination of Employment in connection with Relocation. If, during calendar year 2017,

(1) the Company relocates its headquarters to the State of Texas or any other location that is more than 25 miles from Bellevue, Washington (the "Relocation"), and

(2) either (A) Executive's employment with the Company is terminated by the Company without Cause, whether before or after the date of the Relocation (the "Relocation Date"), or (B) Executive does not relocate and terminates his employment with the Company on or after the Relocation Date,

then, subject to Section 6(h), Executive shall receive the following payments and benefits:

(i) a severance payment in an amount equal to one times the Executive's Base Salary in effect as of the Termination Date and his then current Target Bonus amount (in each case less

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applicable withholding taxes), which amount shall be payable in a single lump sum on the first payroll date that is at least 60 days following the Termination Date (but, in any event, by no later than March 15, 2018), in accordance with Section 13(b)(ii);

(ii) a lump-sum payment in an amount equal to (A) the monthly COBRA premium in effect under the Company's group health plan as of the Termination Date for the coverage in effect under such plan for the Executive (and the Executive's spouse and dependent children) on such date multiplied by (B) 12, which amount shall be payable in a single lump sum on the first payroll date that is at least 60 days following the Termination Date (but, in any event, by no later than March 15, 2018), in accordance with Section 13(b)(ii); and

(iii) notwithstanding any provision to the contrary in any applicable equity compensation plan or any outstanding equity award agreement, the treatment of the Executive's outstanding equity awards shall be governed solely by the following provisions: (A) all of the Executive's outstanding equity awards granted prior to October 25, 2016 shall fully vest and all restrictions thereon shall lapse and (B) to the extent vested (including as a result of the acceleration provided under this Section 6(e)(iii)), all of the Executive's outstanding stock options shall remain exercisable until the later of one year following the Termination Date or June 30, 2018; provided, however, that all of the Executive's outstanding equity awards granted prior to the effective date of this Agreement (other than outstanding stock options granted prior to the effective date of this Agreement) shall also be governed by Section 16 of the Company's Restated 1996 Flexible Stock Incentive Plan or Section 15 of the 2015 Incentive Plan, as applicable, and the award agreements for those equity awards.

The Executive's receipt of payments and benefits under this Section 6(e) precludes any claim for payments and benefits under Section 6(c) or Section 6(d).

[see next page for signatures]

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IN WITNESS WHEREOF, the parties hereto have executed this Amendment No. 2.

Blucora, Inc.

By: /s/ John S. Clendening

Date: October 24, 2016

Name: John S. Clendening

Title: CEO

Executive

/s/ Mark A. Finkelstein

Date: October 25, 2016

Mark A. Finkelstein

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002  
(EXCHANGE ACT RULES 13a-14(a) and 15d-14(a))**

I, John S. Clendening, certify that:

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

Dated: October 27, 2016

/s/ John S. Clendening

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John S. Clendening  
Chief Executive Officer and President  
(Principal Executive Officer)

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002  
(EXCHANGE ACT RULES 13a-14(a) and 15d-14(a))**

I, Eric M. Emans, certify that:

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

Dated: October 27, 2016

/s/ Eric M. Emans

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Eric M. Emans  
Chief Financial Officer  
(Principal Financial Officer)

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER  
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002  
(18 U.S.C. SECTION 1350)**

I, John S. Clendening, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of Blucora, Inc. for the quarter ended September 30, 2016 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Blucora, Inc.

Dated: October 27, 2016

By: /s/ John S. Clendening

Name: John S. Clendening

Title: Chief Executive Officer and President  
(Principal Executive Officer)

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER  
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002  
(18 U.S.C. SECTION 1350)**

I, Eric M. Emans, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of Blucora, Inc. for the quarter ended September 30, 2016 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Blucora, Inc.

Dated: October 27, 2016

By: /s/ Eric M. Emans

Name: Eric M. Emans

Title: Chief Financial Officer  
(Principal Financial Officer)