BLUCORA, INC.
Form 10-Q
October 31, 2018

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

FORM 10-Q

ý **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2018
or
o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ___________ to _________
Commission File Number: 000-25131

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

Delaware	**91-1718107**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
6333 State Hwy 161, 4th Floor, Irving, Texas	**75038**
(Address of principal executive offices)	**(Zip Code)**

Registrant’s telephone number, including area code: (972) 870-6000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. ý Yes o No
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). ý Yes o No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	ý	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	o
		Emerging growth company	o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section13(a) of the Exchange Act. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
o Yes ý No
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at October 24, 2018
Common Stock, Par Value $0.0001	47,970,272

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This report 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 21E of the Securities Exchange Act of 1934, as amended. Words such as "anticipate," "believe," "plan," "expect," "future," "intend," "may," "will," "should "predict," "potential," "continue," and similar expressions identify forward-looking statements, but the absence of these words does not mean that the statement is not forward-looking. These forward-looking statements include, but are not limited to, statements regarding:

- *our ability to effectively implement our future business plans and growth strategy, including our ability to achieve the anticipated benefits of our Strategic Transformation (as defined in this Quarterly Report on Form 10-Q);*
- *our ability to effectively compete within our industry;*
- *our ability to attract and retain customers and productive financial advisors, as well as our ability to provide strong service to both;*
- *our future capital requirements and the availability of financing, if necessary;*
- *our ability to meet our current and future debt service obligations, including our ability to maintain compliance with our debt covenants;*
- *our ability to generate strong investment performance for our customers and the impact of the financial markets on our customers' portfolios and investment behavior;*
- *political and economic conditions and changes and events that directly or indirectly impact the wealth management and tax preparation industries;*
- *our ability to respond to rapid technological changes, including our ability to successfully release new products and services or improve upon existing products and services;*
- *our expectations concerning the revenues we generate from fees associated with the financial products that we distribute;*
- *our ability to comply with regulations applicable to the wealth management and tax preparation industries, including increased costs associated with new or changing regulations;*
- *our ability to achieve the expected benefits from our new clearing platform and investment advisory platform;*
- *risks associated with the use and implementation of information technology and the effect of security breaches, computer viruses and computer hacking attacks;*
- *our ability to comply with laws and regulations regarding privacy and protection of user data;*
- *our ability to maintain our relationships with third party partners, providers, suppliers, vendors, distributors, contractors, financial institutions and licensing partners;*
- *our beliefs and expectations regarding the seasonality of our business;*
- *risks associated with litigation;*
- *our ability to attract and retain qualified employees;*
- *our assessments and estimates that determine our effective tax rate;*
- *the impact of new or changing tax legislation on our business and our ability to attract and retain customers;*
- *our ability to develop, establish and maintain strong brands;*
- *our ability to protect our intellectual property and the impact of any claim that we have infringed on the intellectual property rights of others; and*
- *our ability to effectively integrate companies or assets that we acquire.*

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, the risk factors set forth in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017, as supplemented by the those identified under Part II, Item 1A, "Risk Factors" and elsewhere in this report, as well as in the Company's other filings with the Securities and Exchange Commission. You should not rely on forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q. We do not undertake any obligation to update 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, except as required by law.

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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, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 88,274	$ 59,965
Cash segregated under federal or other regulations	317	1,371
Accounts receivable, net of allowance	6,056	10,694
Commissions receivable	16,762	16,822
Other receivables	626	3,180
Prepaid expenses and other current assets, net	5,571	7,365
Total current assets	117,606	99,397
Long-term assets:		
Property and equipment, net	11,111	9,831
Goodwill, net	548,915	549,037
Other intangible assets, net	302,715	328,205
Other long-term assets	15,363	15,201
Total long-term assets	878,104	902,274
Total assets	$ 995,710	$ 1,001,671
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 2,158	$ 4,413
Commissions and advisory fees payable	15,186	17,813
Accrued expenses and other current liabilities	16,473	19,577
Deferred revenue	5,997	9,953
Total current liabilities	39,814	51,756
Long-term liabilities:		
Long-term debt, net	260,208	338,081
Deferred tax liability, net	42,356	43,433
Deferred revenue	500	804
Other long-term liabilities	6,923	8,177
Total long-term liabilities	309,987	390,495
Total liabilities	349,801	442,251
Redeemable noncontrolling interests	22,224	18,033
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Common stock, par $0.0001—authorized shares, 900,000; issued and outstanding shares, 47,816 and 46,366, respectively	5	5
Additional paid-in capital	1,569,539	1,555,560
Accumulated deficit	(945,708)	(1,014,174)
Accumulated other comprehensive loss	(151)	(4)

Total stockholders’ equity	623,685	541,387
Total liabilities and stockholders’ equity	$ 995,710	$ 1,001,671

See accompanying notes to Unaudited Condensed Consolidated Financial Statements.

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

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Revenue:				
Wealth management services revenue	$91,887	$86,809	$275,984	$254,772
Tax preparation services revenue	3,498	3,362	183,214	156,936
Total revenue	95,385	90,171	459,198	411,708
Operating expenses:				
Cost of revenue:				
Wealth management services cost of revenue	62,313	59,607	187,526	172,444
Tax preparation services cost of revenue	1,370	1,314	8,182	7,543
Amortization of acquired technology	—	50	99	145
Total cost of revenue	63,683	60,971	195,807	180,132
Engineering and technology	4,246	5,051	14,225	14,041
Sales and marketing	15,675	13,680	94,719	84,974
General and administrative	13,404	12,207	43,895	39,405
Depreciation	798	867	3,706	2,680
Amortization of other acquired intangible assets	8,271	8,615	25,384	25,192
Restructuring	—	106	291	2,726
Total operating expenses	106,077	101,497	378,027	349,150
Operating income (loss)	(10,692)	(11,326)	81,171	62,558
Other loss, net	(3,863)	(5,241)	(11,850)	(39,149)
Income (loss) before income taxes	(14,555)	(16,567)	69,321	23,409
Income tax benefit (expense)	818	(166)	(2,052)	(5,952)
Net income (loss)	(13,737)	(16,733)	67,269	17,457
Net income attributable to noncontrolling interests	(227)	(164)	(654)	(466)
Net income (loss) attributable to Blucora, Inc.	$(13,964)	$(16,897)	$66,615	$16,991
Net income (loss) per share attributable to Blucora, Inc.*:				
Basic	$(0.37)	$(0.37)	$1.34	$0.39
Diluted	$(0.37)	$(0.37)	$1.28	$0.36
Weighted average shares outstanding:				
Basic	47,712	45,459	47,191	43,749
Diluted	47,712	45,459	49,292	46,813
Other comprehensive income (loss):				
Net income (loss)	$(13,737)	$(16,733)	$67,269	$17,457
Unrealized gain on available-for-sale investments, net of tax	—	—	—	1
Foreign currency translation adjustment	102	223	(147)	413
Other comprehensive income (loss)	102	223	(147)	414
Comprehensive income (loss)	(13,635)	(16,510)	67,122	17,871
Comprehensive income attributable to noncontrolling interests	(227)	(164)	(654)	(466)
Comprehensive income (loss) attributable to Blucora, Inc.	$(13,862)	$(16,674)	$66,468	$17,405

* The 2018 net income (loss) per share amounts include the noncontrolling interest redemption impact discussed further in "Note 7: Redeemable Noncontrolling Interests" and in "Note 11: Net Income (Loss) Per Share."

See accompanying notes to Unaudited Condensed Consolidated Financial Statements.

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

	Nine months ended September 30,	
	2018	**2017**
Operating Activities:		
Net income	$67,269	$17,457
Adjustments to reconcile net income to net cash from operating activities:		
Stock-based compensation	9,559	8,434
Depreciation and amortization of acquired intangible assets	29,539	28,553
Restructuring (non-cash)	—	1,499
Deferred income taxes	(1,073)	(473)
Amortization of premium on investments, net, and debt issuance costs	659	901
Accretion of debt discounts	125	1,893
Loss on debt extinguishment	1,534	19,764
Cash provided (used) by changes in operating assets and liabilities:		
Accounts receivable	4,636	3,259
Commissions receivable	60	(288)
Other receivables	3,149	2,384
Prepaid expenses and other current assets	1,369	1,720
Other long-term assets	(902)	432
Accounts payable	(2,255)	(1,375)
Commissions and advisory fees payable	(2,627)	(23)
Deferred revenue	(2,411)	(5,856)
Accrued expenses and other current and long-term liabilities	(3,048)	949
Net cash provided by operating activities	105,583	79,230
Investing Activities:		
Purchases of property and equipment	(5,340)	(3,809)
Proceeds from sales of investments	—	249
Proceeds from maturities of investments	—	7,252
Purchases of investments	—	(409)
Net cash provided (used) by investing activities	(5,340)	3,283
Financing Activities:		
Proceeds from credit facilities	—	367,212
Payments on convertible notes	—	(172,827)
Payments on credit facilities	(80,000)	(285,000)
Proceeds from stock option exercises	11,738	38,228
Proceeds from issuance of stock through employee stock purchase plan	1,608	1,428
Tax payments from shares withheld for equity awards	(5,983)	(6,744)
Contingent consideration payments for business acquisition	(1,315)	(946)
Net cash used by financing activities	(73,952)	(58,649)
Net cash provided by continuing operations	26,291	23,864
Net cash provided by investing activities from discontinued operations	—	1,028
Net cash provided by discontinued operations	—	1,028
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	(11)	86
Net increase in cash, cash equivalents, and restricted cash	26,280	24,978

Cash, cash equivalents, and restricted cash, beginning of period	62,311	54,868
Cash, cash equivalents, and restricted cash, end of period	$88,591	$79,846
Non-cash investing and financing activities from continuing operations:		
Cash paid for income taxes	$1,096	$1,013
Cash paid for interest	$11,573	$14,205

See accompanying notes to Unaudited Condensed Consolidated Financial Statements.

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BLUCORA, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Note 1: Description of the Business
Description of the business: Blucora, Inc. (the ***"Company"*** or ***"Blucora"***) operates two businesses: a Wealth Management business and an online Tax Preparation business. The Wealth Management business consists of the operations of HDV Holdings, Inc. and its subsidiaries (***"HD Vest"***). HDV Holdings, Inc. is the parent company of the Wealth Management business and owns all outstanding shares of HD Vest, Inc., which serves as a holding company for the various financial services subsidiaries. Those subsidiaries include HD Vest Investment Securities, Inc. (an introducing broker-dealer), H.D. Vest Advisory Services, Inc. (a registered investment adviser), and H.D. Vest Insurance Agency, LLC (an insurance broker) (collectively referred to as the ***"Wealth Management business"*** or the ***"Wealth Management segment"***). The Tax Preparation business consists of the operations of TaxAct, Inc. and its subsidiary (***"TaxAct"***) and provides digital tax preparation solutions for consumers, small business owners, and tax professionals through its website www.TaxAct.com (collectively referred to as the ***"Tax Preparation business"*** or the ***"Tax Preparation segment"***).
Segments: The Company has two reportable segments: the Wealth Management segment, which consists of the HD Vest business, and the Tax Preparation segment, which consists of the TaxAct business.
Note 2: Summary of Significant Accounting Policies
Interim financial information: The accompanying consolidated financial statements have been prepared by the Company under the rules and regulations of the Securities and Exchange Commission (the ***"SEC"***) for interim financial reporting. These consolidated financial statements are unaudited and, in management's opinion, include all adjustments, consisting of normal recurring adjustments and accruals, necessary for a fair presentation of the consolidated financial position, results of operations, and cash flows for the periods presented. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States (***"GAAP"***) have been omitted in accordance with the rules and regulations of the SEC. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes in Part II Item 8 of the Company's Annual Report on Form 10-K for the year ended December 31, 2017. Interim results are not necessarily indicative of results for a full year.
Cash, cash equivalents, and restricted cash: The following table presents cash, cash equivalents, and restricted cash as reported on the consolidated balance sheets that equal the total amounts on the consolidated statements of cash flows (in thousands):

	September 30,		December 31,
	2018	2017	2017
Cash and cash equivalents	$88,274	$78,558	$59,965
Cash segregated under federal or other regulations	317	313	1,371
Restricted cash included in "Prepaid expenses and other current assets, net"	—	425	425
Restricted cash included in "Other long-term assets"	—	550	550
Total cash, cash equivalents, and restricted cash	$88,591	$79,846	$62,311

Cash segregated under federal and other regulations is held in a separate bank account for the exclusive benefit of the Company's Wealth Management customers. Restricted cash included in prepaid expenses and other current assets, net and other long-term assets represents amounts pledged as collateral for certain of the Company's banking and lease arrangements.
Fair value of financial instruments: The Company measures its cash equivalents 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.

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Cash equivalents are classified within Level 2 (see "Note 5: Fair Value Measurements") of the fair value hierarchy because the Company values them utilizing market observable inputs. Unrealized gains and losses are included in "Accumulated other comprehensive loss" on the consolidated balance sheets, and amounts reclassified out of comprehensive income into net income are determined on the basis of specific identification.

The Company has a contingent consideration liability that is related to the Company's 2015 acquisition of SimpleTax Software Inc. (***"SimpleTax"***). The Company's contingent consideration liability is classified within Level 3 (see "Note 5: Fair Value Measurements") of the fair value hierarchy because the Company values it utilizing significant inputs not observable in the market. Specifically, the Company has determined the fair value of the contingent consideration liability based on a probability-weighted discounted cash flow analysis, which includes assumptions related to estimating revenues, the probability of payment, and the discount rate. The change in the fair value of the contingent consideration liability is recognized in "General and administrative" expense on the consolidated statements of comprehensive income for the period in which the fair value changes. The Company accounts for contingent consideration in accordance with applicable accounting guidance pertaining to business combinations.

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

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

Accounts receivable are typically unsecured and are derived from revenues earned from customers primarily located in the United States operating in a variety of geographic areas.

Property and equipment, net: In the first quarter of 2018, the Company determined that certain of its internally-developed software fixed assets would not be used for as long as previously estimated and recognized $1.1 million of depreciation expense after shortening the estimated useful lives of those assets.

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

Share-Based Payments (ASU 2018-07) - In June 2018, the FASB issued an ASU that requires companies to account for share-based payments granted to non-employees similarly to share-based payments granted to employees. This ASU is effective for fiscal years beginning after December 15, 2018, including the interim periods within those fiscal years. Early adoption of this ASU is permitted. In the third quarter of 2018, the Company decided to early adopt the requirements of the new standard effective January 1, 2018, utilizing the alternative adoption method.

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The adoption of this ASU had a $0.3 million cumulative effect on the Company's unaudited 2018 quarterly results, with a corresponding adjustment to additional paid-in capital:

	First Quarter		Second Quarter	
	Reported	**Recast**	**Reported**	**Recast**
Income statement data:				
Wealth management services cost of revenue	$63,067	$63,064	$62,452	$62,149
Operating income (loss)	52,734	52,737	38,823	39,126
Net income (loss)	45,543	45,546	35,157	35,460
Net income (loss) attributable to Blucora, Inc.	45,338	45,341	34,935	35,238
Net income (loss) per share attributable to Blucora, Inc.				
Basic	$0.97	$0.97	$0.74	$0.75
Weighted average shares outstanding				
Basic	46,641	46,641	47,221	47,221

Revenue recognition (ASC 606) - In May 2014, the FASB issued guidance codified in ASC 606, "Revenue from Contracts with Customers" (***"ASC 606"***), 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 by using a five-step process. 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.

The Company adopted the requirements of the new standard on January 1, 2018, utilizing the modified retrospective transition method. Upon adoption, the Company recognized a $1.8 million cumulative effect as an adjustment to the opening balance of retained earnings and deferred revenues on the consolidated balance sheets.

As a result of the adoption of ASC 606, the Company now recognizes certain licensing fees on a net basis, which reduced both transaction and fee revenues and operating expenses by $0.4 million and $1.3 million, respectively, for the three and nine months ended September 30, 2018, on the consolidated statements of comprehensive income. Had the Company not adopted ASC 606, total revenues for the three and nine months ended September 30, 2018 would have been $0.7 million and $2.6 million, respectively, higher than reported on the consolidated statements of comprehensive income.

Pursuant to the modified retrospective transition method, prior periods were not retrospectively adjusted, and the Company does not disclose the value of unsatisfied performance obligations for contracts with original expected durations of one year or less.

Leases (ASU 2016-02) - In February 2016, the FASB issued an ASU on lease accounting, whereby lease assets and liabilities, whether arising from leases that are considered operating or finance (capital) and have a term of twelve months or more, will be recognized on the balance sheet. Enhanced qualitative disclosures also will be required. This guidance is effective on a modified retrospective basis--with various practical expedients related to leases that commenced before the effective date--for annual reporting periods, including interim reporting periods within those annual reporting periods, beginning after December 15, 2018. Early adoption is permitted. Based upon the Company's current lease obligations, the Company expects that the adoption of this ASU will result in between $8.0 million and $12.0 million of additional right of use assets and lease liabilities recognized on the consolidated balance sheets upon adoption on January 1, 2019.

Measurement of Credit Losses (ASU 2016-13) - In June 2016, the FASB issued an ASU that requires companies to measure credit losses utilizing a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. This ASU is effective for fiscal years beginning after December 15, 2019, including the interim periods within those fiscal years. The Company is currently assessing the impact of adopting this ASU, but based on a preliminary assessment, does not expect the adoption of this guidance to have a material impact on its consolidated financial statements and related disclosures.

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Note 3: Segment Information and Revenues

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

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,**	
	2018	**2017**	**2018**	**2017**
Revenue:				
Wealth Management	$91,887	$86,809	$275,984	$254,772
Tax Preparation	3,498	3,362	183,214	156,936
Total revenue	95,385	90,171	459,198	411,708
Operating income (loss):				
Wealth Management	12,891	12,425	38,920	36,684
Tax Preparation	(6,936)	(6,238)	95,991	83,410
Corporate-level activity	(16,647)	(17,513)	(53,740)	(57,536)
Total operating income	(10,692)	(11,326)	81,171	62,558
Other loss, net	(3,863)	(5,241)	(11,850)	(39,149)
Income tax benefit (expense)	818	(166)	(2,052)	(5,952)
Net income	$(13,737)	$(16,733)	$67,269	$17,457

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

	Three months ended September 30,		**Nine months ended September 30,**	
	2018	**2017**	**2018**	**2017**
Wealth Management:				
Commission	$41,015	$39,432	$124,269	$117,181
Advisory	41,443	37,588	120,802	107,078
Asset-based	6,979	6,526	21,457	19,276
Transaction and fee	2,450	3,263	9,456	11,237
Total Wealth Management revenue	$91,887	$86,809	$275,984	$254,772
Tax Preparation:				
Consumer	$3,246	$3,149	$168,295	$143,239
Professional	252	213	14,919	13,697
Total Tax Preparation revenue	$3,498	$3,362	$183,214	$156,936

See "Note 2: Summary of Significant Accounting Policies" for a discussion of the new revenue recognition standard, ASC 606, adopted by the Company on January 1, 2018.

Wealth Management revenue recognition: Wealth Management revenue consists primarily of commission revenue, advisory revenue, asset-based revenue, and transaction and fee revenue. The Company's Wealth Management revenues are earned from customers primarily located in the United States.

Wealth management revenue details are as follows:

Commission revenue - Commission revenue represents amounts generated by the Company's clients' purchases and sales of securities and various investment products. The Company serves as the registered broker/dealer or insurance agent for those

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trades. The Company generates two types of commission revenues: transaction-based sales commissions that occur on the trade date, which is when the Company's performance obligations have been substantially completed, and trailing commissions, which are paid to the Company (typically in arrears on a quarterly basis) based on the clients' account balance, rather than a per-transaction fee.

Advisory revenue - Advisory revenue includes fees charged to clients in advisory accounts where the Company is the Registered Investment Adviser. These fees are based on the value of assets within these advisory accounts. Advisory revenues are deferred and recognized ratably over the period (typically quarterly) in which the performance obligations, which are defined in ASC 606 as promises to transfer goods or services, have been completed.

Asset-based revenue - Asset-based revenue primarily includes fees from financial product manufacturer sponsorship programs, cash sweep programs and other asset-based revenues, primarily including margin revenues, and are recognized ratably over the period in which services are provided.

Transaction and fee revenue - Transaction and fee revenue primarily includes support fees charged to advisers, which are recognized over time as advisory services are provided, fees charged for executing certain transactions in client accounts, which are recognized on a trade-date basis, and other fees related to services provided and other account charges as generally outlined in agreements with financial advisers, clients, and financial institutions, which are recognized as services are performed or as earned, as applicable.

Details of Wealth Management revenues are:

Wealth Management Segment Revenues

	Three Months Ended September 30, 2018			Nine Months Ended September 30, 2018		
	Recognized Upon Transaction	Recognized Over Time	Total	Recognized Upon Transaction	Recognized Over Time	Total
Commission revenue	$16,929	$24,086	$41,015	$51,193	$73,076	$124,269
Advisory revenue	—	41,443	41,443	—	120,802	120,802
Asset-based revenue	—	6,979	6,979	—	21,457	21,457
Transaction and fee revenue	576	1,874	2,450	2,573	6,883	9,456
Total	$17,505	$74,382	$91,887	$53,766	$222,218	$275,984

Tax Preparation revenue recognition: The Company derives revenue from the sale of Tax Preparation online services, ancillary services, packaged tax preparation software, and arrangements that may include a combination of these items. Ancillary services include Tax Preparation support services, e-filing services, bank or reloadable pre-paid debit card services, and other value-added services, including enhanced tax and Wealth Management services through HD Vest. The Company’s Tax Preparation revenues are earned from customers primarily located in the United States.

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Tax Preparation revenue details are as follows:
Consumer revenue - Consumer revenue includes revenue associated with the Company’s online software products, downloadable or shipped desktop software products, add-on services such as refund payment transfer services, bank or reloadable pre-paid debit card services and audit defense services.
Online revenues include revenues associated with the Company’s online software products sold to customers and businesses primarily for the preparation of individual or business tax returns, and are generally recognized when customers and businesses complete and file returns.
Desktop revenues primarily include revenues from all downloadable or shipped software products and are generally recognized when customers download the software or when the software ships.
Add-on services are revenues related to services such as refund payment transfer services, bank or reloadable pre-paid debit card services and audit defense services, and are generally recognized as customers complete and file returns.
Professional revenue - Professional revenues include revenues associated with the Company’s desktop software products sold to tax return preparers who utilize the Company’s offerings to service end customers and are generally recognized when customers download the software or when the software ships. Professional customers have the option to elect an unlimited e-filing package or a pay-per-return package. As the unlimited e-filing package can be re-used, those revenues are recognized over an estimated filing timeline. Revenues from the pay-per-return package are recognized when customers complete and file returns.
Details of Tax Preparation revenues are:

Tax Preparation Segment Revenues

	Three Months Ended September 30, 2018			Nine Months Ended September 30, 2018		
	Recognized Upon Transaction	Recognized Over Time	Total	Recognized Upon Transaction	Recognized Over Time	Total
Consumer	$3,246	$ —	$3,246	$168,295	$ —	$168,295
Professional	182	70	252	12,497	2,422	14,919
Total	$3,428	$ 70	$3,498	$180,792	$ 2,422	$183,214

Note 4: Restructuring

The following table summarizes the activity in the restructuring liability (in thousands), resulting from the relocation of the Company's corporate headquarters to Irving, Texas:

	Employee-Related Termination Costs	Contract Termination Costs	Total
Balance as of December 31, 2017	$ 1,202	$ 681	1,883
Restructuring charges	291	—	291
Payments	(1,202)	(212)	(1,414)
Balance as of September 30, 2018	$ 291	$ 469	$760

Employee-related termination costs primarily include severance benefits, under both ongoing and one-time benefit arrangements that were paid at termination dates throughout 2018. Contract termination costs were incurred in connection with the Company's previous headquarters' operating lease.
Additional information on the Company's restructuring can be found in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

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Note 5: Fair Value Measurements

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

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

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

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

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

	September 30, 2018	Fair value measurements at the reporting date using Quoted prices in active markets using identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash equivalents: money market and other funds	$ 23,055	$ —	$ 23,055	$ —
Total assets at fair value	$ 23,055	$ —	$ 23,055	$ —
Acquisition-related contingent consideration liability	$ 1,346	$ —	$ —	$ 1,346
Total liabilities at fair value	$ 1,346	$ —	$ —	$ 1,346

	December 31, 2017	Fair value measurements at the reporting date using Quoted prices in active markets using identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash equivalents: money market and other funds	$ 10,857	$ —	$ 10,857	$ —
Total assets at fair value	$ 10,857	$ —	$ 10,857	$ —
Acquisition-related contingent consideration liability	$ 2,689	$ —	$ —	$ 2,689
Total liabilities at fair value	$ 2,689	$ —	$ —	$ 2,689

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

Acquisition-related contingent consideration liability:	
Balance as of December 31, 2017	$2,689
Payment	(1,315)
Foreign currency transaction gain	(28)
Balance as of September 30, 2018	$1,346

The contingent consideration liability is related to the Company's 2015 acquisition of SimpleTax, and the related payments that began in 2017 and are expected to continue annually through 2019. As of September 30, 2018, the Company could be required to pay up to an additional undiscounted aggregate amount of $1.3 million. This liability is included within Level 3 of the fair value hierarchy because the Company values it utilizing 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 SimpleTax revenues, the probability of payment (100%), and the discount rate (9%). A decrease in estimated SimpleTax revenues or an increase in the discount rate would decrease the fair value of the contingent consideration liability. As of September 30, 2018, the contingent consideration liability was included in "Accrued expenses and other current liabilities" on the consolidated balance sheets.

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Note 6: Debt

The Company’s debt consisted of the following as of the periods indicated in the table below (in thousands):

	September 30, 2018				December 31, 2017			
	Principal amount	Discount	Debt issuance costs	Net carrying value	Principal amount	Discount	Debt issuance costs	Net carrying value
Senior secured credit facility	$265,000	$(1,008)	$(3,784)	$260,208	$345,000	$(1,455)	$(5,464)	$338,081

Senior secured credit facility: In May 2017, the Company entered into a credit agreement with a syndicate of lenders in order to provide a term loan and revolving line of credit for working capital, capital expenditures and general business purposes (the ***"Blucora senior secured credit facilities"***). The Blucora senior secured credit facilities provide for up to $425.0 million of borrowings, consisting of a committed $50.0 million revolving credit facility (including a letter of credit sub-facility) and a $375.0 million term loan facility that mature in May 22, 2022 and May 22, 2024, respectively. Obligations under the Blucora senior secured credit facilities are guaranteed by certain of Blucora's subsidiaries and secured by the assets of the Company and its subsidiaries. The Blucora senior secured credit facilities include financial and operating covenants, including a consolidated total net leverage ratio, which are set forth in detail in the credit facility agreement. As of September 30, 2018, the Company was in compliance with all of the financial and operating covenants under the credit facility agreement.

Principal payments on the term loan are payable quarterly in an amount equal to 0.25% of the initial outstanding principal. In November 2017, the credit facility agreement was amended in order to refinance and reprice the initial term loan, such that the applicable interest rate margin is 3.00% for Eurodollar Rate loans and 2.00% for ABR loans. During the nine months ended September 30, 2018, the Company made prepayments of $80.0 million towards the term loan.

Depending on the Company’s Consolidated First Lien Net Leverage Ratio (as defined in the credit facility agreement), the applicable interest rate margin on the revolving credit facility is from 2.75% to 3.00% for Eurodollar Rate loans and 1.75% to 2.00% for ABR loans. Interest is payable at the end of each interest period. As of September 30, 2018 the Company had not borrowed any amounts under the revolving credit facility.

The Company also has the right to prepay the term loan or outstanding amounts under the revolving credit facility without any premium or penalty (other than customary Eurodollar breakage costs). Prepayments on the term loan are subject to certain prepayment minimums. Beginning with the fiscal year ending December 31, 2018, the Company may be required to make annual prepayments on the term loan in an amount equal to a percentage of excess cash flow of the Company during the applicable fiscal year from 0% to 50%, depending on the Consolidated First Lien Net Leverage Ratio (as defined in the credit facility agreement) for such fiscal year.

As of September 30, 2018, the term loan 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 7: Redeemable Noncontrolling Interests

In connection with the 2015 acquisition of HD Vest, the former management of HD Vest retained an ownership interest in that business. The Company is party to put and call arrangements, exercisable beginning in the first quarter of 2019, with respect to these interests. These put and call arrangements allow certain members of HD Vest management to require the Company to purchase their interests or allow the Company to acquire such interests, respectively. These arrangements can be settled for cash within ninety days after the Company files its Annual Report on Form 10-K for the year ended December 31, 2018. The redemption value of the arrangements is based upon several factors, including, among others, the Company's implied enterprise value, implied equity value and certain financial performance measures of the Company. 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; this occurred in the third quarter of 2018 and the Company recorded an adjustment of approximately $3.5 million.

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A reconciliation of equity attributable to noncontrolling interests and Blucora, Inc. is as follows (in thousands):

	Redeemable Noncontrolling Interests	Blucora, Inc.
Balance as of December 31, 2017	$ 18,033	$541,387
Common stock issued for stock options and restricted stock units	—	12,332
Common stock issued for employee stock purchase plan	—	1,608
Other comprehensive income (loss)	—	(147)
Stock-based compensation	—	9,559
Tax payments from shares withheld for equity awards	—	(5,983)
Impact of adoption of new accounting guidance related to revenue recognition	—	1,851
Net income	654	66,615
Adjustment of redeemable noncontrolling interests to redemption value	3,537	(3,537)
Balance as of September 30, 2018	$ 22,224	$623,685

The redemption amount of noncontrolling interests at September 30, 2018 was $22.2 million.

Note 8: Commitments and Contingencies

Significant events since the year ended December 31, 2017, outside of the ordinary course of the Company's business, include debt activity (as discussed further in "Note 6: Debt"), payment of a portion of the SimpleTax acquisition-related contingent consideration liability (as discussed further in "Note 5: Fair Value Measurements"), and estimated sublease income of $2.6 million primarily related to the sublease agreement for the Company's former headquarters in Bellevue, Washington. Additional information on the Company's commitments and contingencies can be found in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

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 December 12, 2016, a shareholder derivative action was filed by Jeffrey Tilden against the Company, as a nominal defendant, Andrew Snyder, who was a director of the Company at that time, certain companies affiliated with Mr. Snyder, a former officer of the Company, GCA Savvian Advisors, LLC ("***GCA Savvian***"), and certain other current and former members of the Company's Board of Directors, in the Superior Court of the State of California in and for the County of San Francisco. The complaint asserted claims for breaches of fiduciary duty against certain current and former directors of the Company related to the Company's share repurchases and the Company's acquisitions of HD Vest and Monoprice. The complaint asserted a claim against GCA Savvian, the Company's financial advisor in connection with the HD Vest acquisition, for aiding and abetting breaches of fiduciary duty. The complaint also asserted a claim for insider trading against Mr. Snyder, a former director of the Company, and certain companies affiliated with Mr. Snyder. The derivative action did not seek monetary damages from the Company. The complaint sought corporate governance reforms, declaratory relief, monetary damages from the other defendants, attorney's fees and prejudgment interest.

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

On November 21, 2017, Tilden filed a shareholder derivative action in the Delaware Court of Chancery asserting the same claims against the same defendants and seeking the same relief as the San Francisco Superior Court lawsuit. On

January 31, 2018, the Company filed a motion to dismiss the Delaware complaint, and a hearing on the motion was held on July 11, 2018. The motion to dismiss was granted on October 26, 2018, and the case has been dismissed with prejudice and without leave to amend.

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

Note 9: 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,**	
	2018	**2017**	**2018**	**2017**
Cost of revenue	$413	$412	$940	$546
Engineering and technology	178	225	590	734
Sales and marketing	617	529	1,835	1,801
General and administrative	1,666	1,966	6,194	5,353
Restructuring	—	97	—	1,078
Total	$2,874	$3,229	$9,559	$9,512

In the third quarter of 2018, the Company granted 86,000 restricted stock units to certain HD Vest financial advisors. In the second quarter of 2017, the Company granted 350,000 non-qualified stock options to certain HD Vest financial advisors. These advisors are considered non-employees. The restricted stock units and stock options fully vest three years from the date of grant. Following the Company's early adoption of ASU 2018-07, effective January 1, 2018, these grants are accounted for similarly to share-based payments granted to employees. For the three and nine months ended September 30, 2018, stock-based compensation expense for these non-employees was $0.4 million and $0.9 million, respectively, and was recorded in "Wealth management services cost of revenue" on the consolidated statements of comprehensive income.

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

	Three months ended September 30,		**Nine months ended September 30,**	
	2018	**2017**	**2018**	**2017**
Stock options exercised	188	1,243	1,060	3,651
RSUs vested	90	91	310	442
Shares purchased pursuant to ESPP	45	62	80	138
Total	323	1,396	1,450	4,231

Note 10: Income Taxes

The Company recorded income tax (benefit) expense of $(0.8) million and $2.1 million in the three and nine months ended September 30, 2018, respectively. The Company's effective income tax rate differed from the 21% statutory rate in 2018 primarily due to the recognition of previously reserved net operating losses to offset current income tax expense, and the effect of state income taxes.

The Company recorded income tax expense of $0.2 million and $6.0 million in the three and nine months ended September 30, 2017, respectively. Income taxes differed from the 35% statutory rate in 2017 primarily due to the recognition of previously reserved net operating losses to offset current income tax expense, and the effect of state income taxes.

The Tax Cuts and Jobs Act (the ***"Tax Legislation"***) was enacted on December 22, 2017, reducing the U.S. corporate federal income tax rate to 21% from 35%. The Company applied the guidance in Staff Accounting Bulletin 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act, when accounting for the enactment date effects of the Tax Legislation. In 2017, the Company provisionally remeasured certain deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future, which is generally 21%.

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Subsequent to the date of this Quarterly Report on Form 10-Q, the Company finalized its analysis of the Tax Legislation when it filed the Company's 2017 federal income tax return with the Internal Revenue Service. This final analysis did not result in the recognition of any significant measurement period adjustments or give rise to new deferred tax amounts.

Note 11: Net Income (Loss) Per Share

"Basic net income (loss) per share" is computed using the weighted average number of common shares outstanding during the period. "Diluted net income (loss) per share" is computed using the weighted average number of common shares outstanding plus the number of dilutive potential common shares outstanding during the period. Dilutive potential common shares consist of the incremental common shares issuable upon the exercise of outstanding stock options and the vesting of unvested RSUs. Dilutive potential common shares are excluded from the computation of earnings per share if their effect is antidilutive. The redemption value adjustment of the Company's redeemable noncontrolling interest is deducted from income (loss) (as discussed further in "Note 7: Redeemable Noncontrolling Interests").

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,	
	2018	2017	2018	2017
Numerator:				
Income (loss)	$(13,737)	$(16,733)	$67,269	$17,457
Net income attributable to noncontrolling interests	(227)	(164)	(654)	(466)
Adjustment of redeemable noncontrolling interest*	(3,537)	—	(3,537)	—
Net income (loss) attributable to Blucora, Inc. shareholders after adjustment of redeemable noncontrolling interest	(17,501)	(16,897)	63,078	16,991
Denominator:				
Weighted average common shares outstanding, basic	47,712	45,459	47,191	43,749
Dilutive potential common shares	—	—	2,101	3,064
Weighted average common shares outstanding, diluted	47,712	45,459	49,292	46,813
Net income (loss) per share attributable to Blucora, Inc.:				
Basic	$(0.37)	$(0.37)	$1.34	$0.39
Diluted	$(0.37)	$(0.37)	$1.28	$0.36
Shares excluded	3,675	5,798	441	1,160

* See "Note 7: Redeemable Noncontrolling Interests" for further discussion.

Shares were excluded from the computation of diluted earnings per common share for these periods because their effect would have been anti-dilutive.

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

The following discussion should be read in conjunction with our consolidated financial statements and accompanying notes included under Part I Item 1 of this report and the section titled "Cautionary Statement Regarding Forward-Looking Statements" in this report, as well as with our consolidated financial statements, accompanying notes and Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2017.

Our Business

Blucora (collectively, with its direct and indirect subsidiaries on a consolidated basis, the ***"Company," "Blucora," "we," "our" or "us"***) operates two businesses: a Wealth Management business and an online Tax Preparation business.

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

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

Recent Developments

In the third quarter of 2018, we commenced our new clearing services relationship with Fidelity Clearing & Custody Solutions pursuant to the agreement we executed during the third quarter of 2017. We expect the new clearing relationship to provide tangible benefits to our advisors and customers in the form of improved technology, product offerings and service. We currently expect that this relationship could generate in excess of $120.0 million of incremental Wealth Management segment income over the 10 years following conversion. In the fourth quarter of 2018, we expect to receive approximately $10.0 million of operating cash flows from incentives from this relationship, which will benefit Wealth Management segment income over the succeeding 10 years.

Strategic Transformation

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

In connection with the relocation of our corporate headquarters, we have incurred restructuring costs of approximately $7.3 million since that initiative began. These costs are recorded within corporate-level activity for segment purposes. See "Note 4: Restructuring" of the Notes to Unaudited Condensed Consolidated Financial Statements in Part I Item 1 of this report for additional information. We also have incurred costs that do not qualify for restructuring classification, such as recruiting and overlap in personnel expenses as we transitioned positions to Texas (***"Strategic Transformation Costs"***).

For a discussion of risks associated with the Strategic Transformation, see the sections under the heading "Risks Associated With our Businesses" in Part I Item 1 of our Annual Report on Form 10-K for the year ended

December 31, 2017.

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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. We anticipate that the seasonal nature of the Tax Preparation business will continue in the foreseeable future.

RESULTS OF OPERATIONS

Summary

(In thousands, except percentages)	Three months ended September 30,			Nine months ended September 30,		
	2018	2017	Percentage Change	2018	2017	Percentage Change
Revenue	$95,385	$90,171	6 %	$459,198	$411,708	12 %
Operating income (loss)	$(10,692)	$(11,326)	(6)%	$81,171	$62,558	30 %

Three months ended September 30, 2018 compared with three months ended September 30, 2017

Revenue increased approximately $5.2 million due to increases of $5.1 million and $0.1 million in revenue related to our Wealth Management and Tax Preparation businesses, respectively, as discussed in the following "Segment Revenue/Operating Income" section.

Operating loss decreased approximately $0.6 million, consisting of the $5.2 million increase in revenue that was offset by a $4.6 million increase in operating expenses. Key changes in operating expenses were:

- $4.6 million increase in the Wealth Management segment’s operating expenses, primarily due to higher commissions paid to our financial advisors, which fluctuated in proportion to the change in underlying commission and advisory revenues earned on client accounts, and consulting costs and costs incurred in connection with our transition to a new clearing firm, which was completed in the third quarter of 2018.
- $0.8 million increase in the Tax Preparation segment’s operating expenses, primarily due to higher spend on consulting expenses and personnel-related expenses due to higher headcount.
- $0.9 million decrease in corporate-level expense activity, primarily related to lower amortization expense as certain assets became fully amortized.

Nine months ended September 30, 2018 compared with nine months ended September 30, 2017

Revenue increased approximately $47.5 million due to increases of $21.2 million and $26.3 million in revenue related to our Wealth Management and Tax Preparation businesses, respectively, as discussed in the following "Segment Revenue/Operating Income" section.

Operating income increased approximately $18.6 million, consisting of the $47.5 million increase in revenue that was offset by a $28.9 million increase in operating expenses. Key changes in operating expenses were:

- $19.0 million increase in the Wealth Management segment’s operating expenses, primarily due to higher commissions paid to our financial advisors, which fluctuated in proportion to the change in underlying commission and advisory revenues earned on client accounts, consulting costs and costs incurred in connection with our transition to a new clearing firm, which was completed in the third quarter of 2018, and an increase in stock-based compensation expense related to stock options granted to certain HD Vest financial advisors.

- $13.7 million increase in the Tax Preparation segment’s operating expenses, primarily due to higher spend on marketing, particularly offline media and digital marketing efforts, an increase in engineering development projects, and an increase in consulting expenses primarily related to strategic initiatives.

- $3.8 million decrease in corporate-level expense activity, primarily due to lower Strategic Transformation Costs, which primarily consisted of severance and other personnel-related costs, offset by higher depreciation due to the abandonment of certain internally-developed software fixed assets.

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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 United States (***"GAAP"***) and include certain reconciling items attributable to each of the segments. Segment information appearing in "Note 3: Segment Information and Revenues" 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 have two reportable segments: Wealth Management and Tax Preparation. We do not allocate certain general and administrative costs (including personnel and overhead costs), stock-based compensation, depreciation, amortization of acquired intangible assets, restructuring, other loss, net, and income taxes to segment operating results. Rather, we analyze such general and administrative costs separately under the heading "Corporate-level activity."

Wealth Management

(In thousands, except percentages)	Three months ended September 30,			Nine months ended September 30,		
	2018	2017	Percentage Change	2018	2017	Percentage Change
Revenue	$91,887	$86,809	6 %	$275,984	$254,772	8 %
Operating income	$12,891	$12,425	4 %	$38,920	$36,684	6 %
Segment margin	14 %	14 %		14 %	14 %	

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

Sources of revenue

(In thousands, except percentages)			Three months ended September 30,			Nine months ended September 30,		
	Sources of Revenue	Primary Drivers	2018	2017	Percentage Change	2018	2017	Percentage Change
Advisor-driven	Commission	- Transactions - Asset levels	$41,015	$39,432	4 %	$124,269	$117,181	6 %
	Advisory	- Advisory asset levels	41,443	37,588	10 %	120,802	107,078	13 %
Other revenue	Asset-based	- Cash balances - Interest rates - Number of accounts - Client asset levels	6,979	6,526	7 %	21,457	19,276	11 %
	Transaction and fee	- Account activity - Number of clients - Number of advisors - Number of accounts	2,450	3,263	(25)%	9,456	11,237	(16)%
	Total revenue		$91,887	$86,809	6 %	$275,984	$254,772	8 %
	Total recurring revenue		$74,228	$70,539	5 %	$222,559	$203,417	9 %
	Recurring revenue rate		80.8 %	81.3 %		80.6 %	79.8 %	

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 fluctuate depending on market values and current interest rates. Accordingly, our recurring revenue can be negatively impacted by adverse external market conditions. However, we believe recurring revenue is meaningful despite these fluctuations because it is not dependent upon transaction volumes or other activity-based revenues, which are more difficult to predict, particularly in declining or volatile markets.

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Business metrics

(In thousands, except percentages and as otherwise indicated)	September 30, 2018	2017	Percentage Change
Total Client Assets	$46,413,409	$42,696,862	9 %
Brokerage Assets	$32,897,081	$30,712,542	7 %
Advisory Assets	$13,516,328	$11,984,320	13 %
Percentage of Total Client Assets	29.1 %	28.1 %	
Number of advisors (in ones)	3,687	4,392	(16)%
Advisor-driven revenue per advisor	$22.4	$17.5	28 %

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

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

For the quarter ended September 30, 2018, Total Client Assets and Advisory Assets include $210.0 million and $71.3 million, respectively, of assets held at our former clearing firm for which we are broker-of-record and whose conversion was administratively delayed, the majority of which have converted to or are in the process of converting to our new clearing firm in the fourth quarter of 2018.

Brokerage assets represents the difference between total client assets and advisory assets.

We have been reducing disengaged advisors who have little to no assets held with us, which has resulted in advisor counts trending down. As we continue to reduce disengaged advisors, the number of advisors could continue to decrease before stabilizing. This decrease has resulted in, and is expected to continue to improve, the growth in advisor-driven revenues per advisor.

Three months ended September 30, 2018 compared with three months ended September 30, 2017

Wealth Management revenue increased approximately $5.1 million as a result of the factors discussed with each source of revenue below.

Wealth Management operating income increased approximately $0.5 million, due to a $5.1 million increase in revenue, offset by a $4.6 million increase in operating expenses. The increase in Wealth Management operating expenses was primarily due to higher commissions paid to our financial advisors, which fluctuated in proportion to the change in underlying commission and advisory revenues earned on client accounts, and consulting costs and costs incurred in connection with our transition to a new clearing firm, which was completed in the third quarter of 2018.

Nine months ended September 30, 2018 compared with nine months ended September 30, 2017

Wealth Management revenue increased approximately $21.2 million as a result of the factors discussed with each source of revenue below.

Wealth Management operating income increased approximately $2.2 million, due to a $21.2 million increase in revenue, offset by a $19.0 million increase in operating expenses. The increase in Wealth Management operating expenses was primarily due to higher commissions paid to our financial advisors, which fluctuated in proportion to the change in underlying commission and advisory revenues earned on client accounts, consulting costs and costs incurred in connection with our

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transition to a new clearing firm, which was completed in the third quarter of 2018, and an increase in stock-based compensation expense related to stock options granted to certain HD Vest financial advisors.

Commission revenue: The Wealth Management segment generates 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, market volatility, interest rate fluctuations and investment activity of our financial advisors' clients. We earn trailing commissions (a commission or fee that is paid periodically over time) on certain 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 type of commission revenue, was as follows:

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