# Blucora, Inc. Q3 2012 Earnings Supplemental Information

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#### **Blucora Consolidated Financial Results**

(in thousands except earnings per share, rounding differences may exist)

	2010			2011						
-	FYE 12/31	<u>1Q11</u>	2Q11	3Q11	<u>4Q11</u>	FYE 12/31	<u>1Q12</u>	2Q12	3Q12	3Q12 YTD
Segment Revenue										
Search	\$214,343	\$51,650	\$54,292	\$56,257	\$66,615	\$228,814	\$75,295	\$81,808	\$91,408	\$248,511
Tax Preparation <sup>(1)</sup>	0	0	0	0	0	0	40,401	19,075	1,462	60,938
Total	\$214,343	\$51,650	\$54,292	\$56,257	\$66,615	\$228,814	\$115,696	\$100,883	\$92,870	\$309,449
Segment Income (Loss) (2)										
Search	\$49,266	\$11,095	\$11,534	\$10,809	\$12,768	\$46,206	\$13,373	\$15,078	\$16,356	\$44,807
Tax Preparation (1)	0	0	0	0	0	0	22,135	11,954	(1,561)	32,528
Total	\$49,266	\$11,095	\$11,534	\$10,809	\$12,768	\$46,206	\$35,508	\$27,032	\$14,795	\$77,335
Segment Income (Loss) % of Revenue										
Search	23%	21%	21%	19%	19%	20%	18%	18%	18%	18%
Tax Preparation	na	na	na	na	na	na	55%	63%	-107%	53%
Total	23%	21%	21%	19%	19%	20%	31%	27%	16%	25%
Unallocated Corporate Operating Expense	\$16,801	\$2,130	\$2,543	\$2,307	\$2,603	\$9,583	\$3,806 (3)	\$2,525	\$2,695	\$9,026
Adjusted EBITDA	\$32,465	\$8,965	\$8,991	\$8,502	\$10,165	\$36,623	\$31,702	\$24,507	\$12,100	\$68,309
Other Unallocated Corporate										
Depreciation	\$6,596	\$1,451	\$1,376	\$1,115	\$919	\$4,861	\$951	\$956	\$988	\$2,895
Amortization of Intangibles	9,197	958	772	518	347	2,595	3,624 (4)	5,248	5,183	14,055
Stock Compensation	13,919	2,033	1,338	3,049	1,267	7,687	6,708 (5)	2,020	2,195	10,923
Other (Income) Expense	(15,244)	(75)	(107)	455	972	1,245	1,555	930	5,196 (	67,681_
Total	\$14,468	\$4,367	\$3,379	\$5,137	\$3,505	\$16,388	\$12,838	\$9,154	\$13,562	\$35,554
Income (Loss) Before Taxes	17,997	4,598	5,612	3,365	6,660	20,235	18,864	15,353	(1,462)	32,755
Income Tax										
Cash	\$196	\$113	\$133	\$68	\$1,398	\$1,712	\$861	\$474	-\$185	\$1,150
Non-cash <sup>(7)</sup>	8,530	1,589	1,803	1,221	(17,613)	(13,000)	6,597	5,181	1,121	12,899
Total	\$8,726	\$1,702	\$1,936	\$1,289	-\$16,215 <sup>(8)</sup>	-\$11,288	\$7,458	\$5,655	\$936	\$14,049
Income (Loss) from Continuing Operations	9,271	2,896	3,676	2,076	22,875	31,523	11,406	9,698	(2,398)	18,706
Discontinued Operations Loss (9)	(4,593)	(1,573)	(8,354)	-	-	(9,927)	=	-	-	-
GAAP Net Income (Loss)	\$4,678	\$1,323	-\$4,678	\$2,076	\$22,875	\$21,596	\$11,406	\$9,698	-\$2,398	\$18,706
GAAP Earnings Per Share	\$0.13	\$0.04	-\$0.12	\$0.05	\$0.57	\$0.56	\$0.28	\$0.24	-\$0.06	\$0.45
	440.557	47.400	47.500	45.045	<b>66.006</b>	444.405	420 547	624.047	440 424	460 755
Non-GAAP Net Income Non-GAAP Earnings (Loss) Per Share	\$40,557 \$1.10	\$7,433 \$0.20	\$7,590 \$0.20	\$6,846 \$0.17	\$6,896 \$0.17	-\$11,195 -\$0.29	\$28,517 \$0.70	\$21,817 \$0.53	\$10,421 \$0.26	\$60,755 \$1.47
Non-GAAP Earnings (Loss) Per Share	\$1.10	\$0.20	\$0.20	\$0.17	\$0.17	-\$0.29	\$0.70	\$0.53	\$0.26	\$1.47
Outstanding Shares	36,089	36,502	37,964	39,323	39,534	39,534	39,804	40,334	40,633	40,633
Basic Shares	35,886	36,339	37,422	38,568	39,448	37,954	39,692	40,116	40,511	40,108
Fully-diluted Shares	36,829	37,084	38,128	39,158	40,074	38,621	40,978	41,245	40,511	41,425
Cash & Short-term Investment	\$253,736	\$249,765	\$263,402	\$279,276	\$293,551	\$293,551	\$129,868	\$141,867	\$150,417	\$150,417
Outstanding Debt	0	0	0	0	0	0	85,000	75,000	74,496	74,496
Net Cash	\$253,736	\$249,765	\$263,402	\$279,276	\$293,551	\$293,551	\$44,868	\$66,867	\$75,921	\$75,921

#### **Notes to Consolidated Financial Results**

- (1) On January 31, 2012, the Company acquired TaxACT Holdings, Inc. and its wholly-owned subsidiary, 2<sup>nd</sup> Story Software, Inc., which operates the TaxACT tax preparation software and software business. The TaxACT business consists of an online tax preparation service for individuals, tax preparation software for individuals and professional tax preparers, and ancillary data storage services. The majority of the TaxACT business's revenue is generated by the online service at www.taxact.com. As a highly seasonal business, almost all of the TaxACT revenue is generated in the first four months of the calendar year. Amounts represent the results of operations for the TaxACT business from February 1, 2012 to September 30, 2012.
- (2) The Company does not allocate certain general, administrative, and overhead costs, or stock-based compensation, depreciation, amortization of intangible assets, other loss (income), net, income tax expense, or results from discontinued operations to the reportable segments. The general, administrative and overhead costs are included in Unallocated Corporate Operating Expense.
- (3) Amount for the quarter ended March 31, 2012 includes \$1.1 million in transaction costs related to the TaxACT acquisition.
- (4) Amount for the quarter ended March 31, 2012 includes \$3.4 million related to amortization of acquired intangible assets related to the TaxACT acquisition.
- (5) In the quarter ended September 30, 2011, \$1.9 million in stock-based compensation expense was recorded in association with issuance of a warrant. In the quarter ended March 31, 2012, \$5.2 million in stock-based compensation expense was recorded in association with the modification of the terms of a warrant and the vesting of a non-employee performance-based equity award, which were both triggered by the acquisition of the TaxACT business.
- (6) Amount includes \$4.3 million related to loss on derivative.
- (7) Amounts represent the non-cash portion of income tax expense from continuing operations. The Company excludes the non-cash portion of income tax expense because of its ability to offset a substantial portion of its cash tax liabilities by using these deferred tax assets. The majority of these deferred tax assets will expire if unutilized in 2020.
- (8) Amount includes a tax benefit of \$19.6 million, due to the release of the valuation allowance on deferred tax assets.
- (9) In the quarter ended June 30, 2011, the Company completed the sale of its Mercantila e-commerce business. The operating results of that business have been presented as discontinued operations for all periods presented.

# Blucora Non-GAAP Reconciliation (1)

(in thousands except earnings per share, rounding differences may exist)

	2010	2011				2012						
	FYE 12/31		<u>1Q11</u>	<u>2Q11</u>	3Q11	<u>4Q11</u>	FYE 12/31	1	Q12	2Q12	3Q12	3Q12 YTD
Adjusted EBITDA												
Net Income (loss) (2)	\$ 4,678	\$	1,323 \$	(4,678) \$	2,076 \$	22,875 \$	21,596	\$ 11,4	06 \$	9,698	\$ (2,398) \$	18,706
Discontinued operations	4,593		1,573	8,354	-	-	9,927			-	-	-
Depreciation	6,596		1,451	1,376	1,115	919	4,861	g	51	956	988	2,895
Amortization of intangible assets	9,197		958	772	518	347	2,595	3,6	24	5,248	5,183	14,055
Stock-based compensation	13,919		2,033	1,338	3,049	1,267	7,687	6,7	80'	2,020	2,195	10,923
Other (income) loss <sup>(3)</sup>	(15,244)		(75)	(107)	455	972	1,245	1,5	555	930	5,196	7,681
Income tax expense (benefit)	8,726		1,702	1,936	1,289	(16,215)	(11,288)	7,4	58	5,655	936	14,049
Adjusted EBITDA	\$ 32,465	\$	8,965 \$	8,991 \$	8,502 \$	10,165 \$	36,623	\$ 31,7	02 \$	24,507	\$ 12,100 \$	68,309
Non-GAAP Net Income												
Net Income <sup>(2)</sup>	\$ 4,678	\$	1,323 \$	(4,678) \$	2,076 \$	22,875 \$	21,596	\$ 11,4	-06 \$	9,698	\$ (2,398) \$	18,706
Discontinued operations	4,593		1,573	8,354	-	-	9,927			-	-	-
Amortization of acquired intangible assets	9,197		958	772	518	347	2,595	3,6	24	5,248	5,183	14,055
Stock-based compensation	13,919		2,033	1,338	3,049	1,267	7,687	6,7	80'	2,020	2,195	10,923
Loss / (Gain) on derivative	-		-	-	-	-	-	2	72	(333)	4,335	4,274
Cash tax impacts of GAAP adjustments	(360)		(43)	1	(18)	20	(40)		(90)	3	(15)	(102)
Non-cash income tax expenses (benefit) from continuing operations (1)	8,530		1,589	1,803	1,221	(17,613)	(13,000)	6,5	97	5,181	1,121	12,899
Non-GAAP net income <sup>(4)</sup>	\$ 40,557	\$	7,433 \$	7,590 \$	6,846 \$	6,896 \$	28,765	\$ 28,5	17 \$	21,817	\$ 10,421 \$	60,755
Non-GAAP Earnings Per Share												
Non-GAAP Net Income	\$ 40,557	\$	7,433 \$	7,590 \$	6,846 \$	6,896 \$	28,765	\$ 28,5	17 \$	21,817	\$ 10,421 \$	60,755
Non-GAAP Earnings Per Share (4)	\$1.10		\$0.20	\$0.20	\$0.17	\$0.17	\$0.74	Ś	.70	\$0.53	\$0.26	\$1.47
Fully-diluted Shares	36,829		37,084	38,128	39,158	40,074	38,621	40,9		41,245	40,511	41,425

<sup>(1)</sup> For definitions of these non-GAAP financial measures and their relationship to the Company's GAAP financial statements, please see Note 1 to the Company's Reconciliations of Non-GAAP financial Measures to the Nearest Comparable GAAP Measure for the three months ended September 30, 2012 and 2011 in exhibit 99.1 to this Current Report on Form 8-K filed on November 1, 2012

<sup>(2)</sup> As presented in the Preliminary Condensed Consolidated Statements of Operations (unaudited).

<sup>(3)</sup> Other loss (income), net includes such items as interest expense, interest income, derivative instrument gains or losses, foreign currency gains or losses, gains or losses from the disposal of assets, adjustments to the fair values of contingent liabilities related to business combinations, gains on resolutions of contingencies and litigation settlements.

<sup>(4)</sup> Amounts previously disclosed have been revised to reflect the effect of classifying the Company's Mercantila e-commerce business as discontinued operations.

#### **Blucora Operating Metrics - Search**

	2010				2012					
	FYE 12/31	<u>1Q11</u>	<u>2Q11</u>	<u>3Q11</u>	<u>4Q11</u>	FYE 12/31	<u>1Q12</u>	<u>2Q12</u>	3Q12	3Q12 YTD
Revenue by Source										
Owned & Operated (B2C)	31%	27%	22%	19%	16%	21%	13%	12%	12%	12%
Distribution (B2B)	69%	73%	78%	81%	84%	79%	87%	88%	88%	88%

<sup>\*</sup> Owned & Operated includes revenue from the Make The Web Better acquisition in 2Q 2010; the installed base has experienced attrition since the acquisition. Owned & Operated also includes other development-stage initiatives.

#### Tax Preparation Segment - Pro Forma 3Q Year-over-Year Results

(in thousands, rounding differences may exist)

	Th	rree Months Ended	t	Nine months ended					
	(a)			(c)					
	3Q12	3Q11	Growth	3Q12	3Q11	Growth			
Pro Forma Revenue	\$ 2,075	\$ 2,004	4%	\$ 83,829	\$ 76,577	9%			
Pro Forma Segment Income	\$ (948)	\$ (435) (b)	118%	\$ 42,411	\$ 38,685 (d)	10%			
Segment Margin	-46%	-22%		51%	51%				

- (a) Includes \$613,000 of revenue not reported on a GAAP basis due to fair value purchase accounting on deferred revenue at date of acquisition.
- (b) Excludes \$3.6 million of non-operational expenses related to a non-consummated sales transaction for 3Q 2011.
- (c) Includes \$2.0M of revenue not reported on a GAAP basis due to fair value purchase accounting on deferred revenue at date of acquisition.
- (d) Excludes \$120,000 and \$6.4M of non-operational expenses related to a non-consummated sales transaction for the nine months ended 3Q 2012 and 3Q 2011, respectively.

### <u>Tax Preparation Segment - Pro Forma Calendar Quarter Historical Performance</u>

(in thousands, rounding differences may exist)

	1Q11	2Q11	3Q11	4Q11	FY 2011	1Q12
Pro Forma Revenue Pro Forma Segment Income	\$ 56,758 (c) \$ 28,564	\$ 17,815 \$ 10,556	\$ 2,004 \$ (435)	\$ 2,205 \$ (1,134)	\$ 78,782 \$ 37,551	\$ 61,944 \$ 30,577
Segment Margin	50%	59%	-22%	-51%	48%	49%

(c) Excludes \$1.1 million, \$1.8 million, \$3.6 million, \$2.9 million and \$9.3 million of non-operational expenses related to a non-consummated sales transaction for 1Q 2011, 2Q 2011, 3Q 2011, 4Q 2011 and full-year 2011.

#### **Pro Forma - Consolidated Financial Performance**

twelve months ending 9/30/2012

(in thousands, rounding differences may exist)

		(a)						
		Tax						
	Pre	paration		Search	Corporate		Cor	rsolidated
Revenue	\$	86,032	\$	315,126	\$	-	\$	401,158
Segment income	\$	41,184	(b) \$	57,575	\$	-	\$	98,759
Unallocated Corporate expenses	\$	-	\$	-	\$	(11,617)	\$	(11,617)
Adjusted EBITDA							\$	87,142
Non-GAAP Net Income							\$	76,045
Non-GAAP Earnings Per Share							\$	1.73
Diluted Shares for the twelve-month period ended September 30, 2012								41,087

<sup>(</sup>a) Includes \$2.0M of revenue not reported on a GAAP basis due to fair value purchase accounting on deferred revenue at date of acquisition in 2012, and \$23.1M revenue prior to the acquisition (October 2011 - January 2012).

<sup>(</sup>b) Includes \$2.0M of revenue which was not reported on a GAAP basis due to fair value purchase accounting on deferred revenue in 2012 and excludes \$3.0M of Transaction expenses related to the failed HRB acquisition

# **Pro-Forma Free Cash Flow ("FCF")**

twelve months ending 9/30/2012

(in thousands, rounding differences may exist)

Pro Forma Adjusted EBITDA	\$ 87,142
Less - Pro Forma Capital Expenditures	\$ (3,050)
Less - Pro Forma Cash Taxes	\$ (1,043)
Unlevered FCF	\$ 83,049
Less - Pro Forma Cash Interest Expense	\$ (4,329) (a)
Levered FCF	\$ 78,720

(a) Interest expense estimated at 5% and assumes initial debt amount of \$100 million for periods prior to acquisition; as of September 30, 2012 there is \$74.5M of debt outstanding.

## **Blucora Pro Forma Non-GAAP Reconciliation**

twelve months ending 9/30/2012

(in thousands except rates, rounding differences may exist)

#### **Pro Forma Adjusted EBITDA**

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Pro forma income from continuing operations	\$ 23,695
Pro forma depreciation	\$ 4,071
Pro forma amortization of intangible assets	\$ 21,111
Pro forma stock-based compensation	\$ 12,526
Pro forma other expense, net	\$ 10,353
Pro forma income tax expense	\$ 15,386
Pro Forma Adjusted EBITDA	\$ 87,142
Pro Forma Non-GAAP Net Income	
Pro forma income from continuing operations	\$ 23,695
Pro forma amortization of acquired intangible assets	\$ 12,526
Pro forma stock-based compensation	\$ 21,111
Loss on derivative	\$ 4,274
Pro forma cash tax impact of GAAP adjustments	\$ 97
Pro forma non-cash income tax expense from continuing operations	\$ 14,343
Pro forma non-GAAP net income	\$ 76,045
Pro forma non-GAAP Earnings per share - diluted	\$ 1.85
Weighted average diluted shares	41,087

<sup>&</sup>lt;sup>(1)</sup> For definitions of these non-GAAP financial measures and their relationship to the Company's GAAP financial statements, please see Note 1 to the Company's Reconciliations of Non-GAAP financial Measures to the Nearest Comparable GAAP Measure for the three months ended September 30, 2012 and 2011 in exhibit 99.1 to this Current Report on Form 8-K filed on November 1, 2012.